SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

Sponsored Jointly
by
The Government of India
and
The United Nations

1-11 December 1959

A Bibliography of Public Enterprise Management and Industry in Developing Countries 1954 - 1959

59-24462

Seminar Operational Paper No. 5

A Bibliography of Public Enterprise Management and Industry in Developing Countries 1954 - 1959

TABLE OF CONTENTS

		Page
PART A:	PUBLIC ENTERPRISES	
	General	1 - 2
	Individual Countries	2 - 7
PART B:	MANAGEMENT OF PUBLIC INDUSTRY	
	General	7 - 10
	Structural Organization and Reorganization	10
	Productivity	10 - 11
	Costing and Accounting	11
	Personnel Relations	11 - 13
PART C:	INDUSTRY IN DEVELOPING COUNTRIES	
	General	13 - 14
	Outside ECAFE Region	
	Europe	14 - 15
	Middle East	15 - 16
	Within ECAFE Region	
	General	16
	Individual Countries	16 - 23

PART A: PUBLIC ENTERPRISES

General

1. Abraham, H.J. Government as entrepreneur and social servant. Washington, D.C., Public Affairs Press, 1956. 62 p.

2. Adam, H.T. Les établissements publics internationaux. Paris, Librairie Générale de Droit et de Jurisprudence, 1957. 323 p.

3. Chenot, B. Les entreprises nationalisées. Paris, Les Presses Universitaires de France, 1956. 126 p.

4. Chester, T. E. "Public enterprise in South East Asia." Political Quarterly, 26 (1), Jan.-Mar. 1955; 43-55.

5. Chubb, B. "Public control of public enterprises." Administration (Dublin), 2 (1), Spring 1954; 21-32.

6. Das, N. The public sector. New Delhi, Eastern Economist Ltd., 1955. 56 p.

7. Delion, A. G. L'Etat et les entreprises publiques. Paris, Sirey, 1957. 199 p.

8. Florence, P.S. Industry and the state. London, (Hutchinson, 1957). 196 p.

9. Friedmann, W., ed. The public corporation, a comparative symposium. Toronto, Carswell, 1954. 612 p.

10. Godchot, J. E. Les sociétés d'économie mixte et l'aménagement du territoire. Paris, Berger-Levrault, 1958. 223 p.

11. Hanson, A.H. Public enterprise and economic development. London, Routledge. 1959. 485 p.

12. Hanson, A. H. ed. Public Enterprise: a study of its organisation and management in various countries. Brussels, International Institute of Administrative Sciences, 1955. 530 p.

13. Haussmann, F. Public utilities und gemischtwirtschaftliche unternehmungen in nationaler und internationaler sicht. Bern, Stämpfli, 1955. 117 p.

14. Hoepke, W., Müller, H., Kettenbach, W. Der Grossentwicklungsplan als Basis der Rekonstrucktion und Weiterentwicklung des volkseigen Industriebetries. (The overall development plan as the basis for the reconstruction and further development of the state-owned enterprise.) Berlin, Verlag Die Wirtschaft, 1954. 110 p.

15. Ichinose, T. Kôkyô Kigyo-tai Zaiseiron, (Financing the public enterprise.) Tokyo, Dôbunkan, 1956. 270 p.

16. Mason, E. S. Economic planning in underdeveloped areas: government and business. New York, Fordham University Press, 1958. 87 p.

17. Nottage, R. "Reporting to Parliament on the nationalized industries."

Public Administration (London), 35 (2), Summer 1957; 143-167.

18. Panigrahi, S. N. "Profit and loss in public enterprises." Indian Taxation, 6 (2), Jan 1955; 49-52.Journal of Indian Merchants' Chamber, 50 (2), Feb. 1956; 55-57.

19. Ramanadham, U. V. "The capitalisation of public corporations." Indian Economic Journal, 2 (3), Dec. 1954; 289-298.

20. Robin, M. "Essai sur la représentation des intérêts dans l'organisation des entreprises publiques. "Revue de Droit Public et de la Science Politique en France et à l'Etranger, 73 (5) Sept.-Oct. 1957, 830-845.

21. Robson, W. A. "Forms and directions of public enterprise." Indian Journal of Public Administration, 1 (1), Jan.-Mar. 1955; 14-24.

22. Schnettler, A. Oeffentliche betriebe. Essen, Verlag W. Girardet, 1956. 374 p.

23. Seidman, H. "The government corporation: organization and controls." Public Administration Review, 14 (3), Summer 1954; 183-192.

24. "Some commercial and economic aspects of public enterprise in certain Asian countries." United Nations Economic Bulletin for Asia and the Far East, 5 (1), May 1954; 29-35.

25. Sugimura, S., and Yanagawa, N. eds. Kôkyô Kigyôtai no Kenkyû (Studies on the public corporation.) Tokyo, Yuhikaku, 1956. 362 p.

26. Tinguey du Pouet, L. de. "Les entreprises nationales et le Parlement." Revue Politique des Idées et des Institutions, 44 (16), 20 Oct. 1955; 481-495.

27. Tucker, W. H. "Public Control of Statutory Corporations." Public Administration (Sydney), 13(1), Mar. 1954; 19-24.

28. United Nations. Some Problems in the Organization and Administration of Public Enterprises in the Industrial Field. New York, United Nations, 1954.87 p.

29. Yamashiro, A. Ko-Kigyo (Public Enterprises). Rev. ed., Tokyo, Shunjû sha "Gendai Shogaku Zenshû,"1955.275 p.

Individual Countries

AUSTRALIA

30. Kewley, T. H., and others. "Public enterprise in Australia." Public Administration (Sydney), Mar. 1957; 3-104.

31. McCusker, Neal. "Administration of the New South Wales Government Railways." Public Administration (Sydney), Sept. 1958; 229-237.

32. Webb, L. C. "Statutory corporations under review." Public Administration (Sydney), 14 (3), Sept. 1955; 158-165.

CANADA

33. Musolf, L.D. "Canadian public enterprise: a character study." American Political Science Review, 50 (2), June 1956; 405-521.

CHINA

34. Li Chiu-Tse. "State department store in Shanghai." People's China, 14, 1954; 29-31.

35. Pao Touei-Lin. "Les entreprises d'économie mixte en Chine." Economie et Réalités Mondiales, 62, Mar. 1955; 20-21.

36. Wang Hua. "The state-owned economy of New China." People's China, 16 Jan. 1954; 3-7.

FRANCE

37. Berend, P. "Le monopole français des tabacs." Revue Administrative, 7 (40), July-Aug. 1954; 356-370.

38. Centre Français de Droit Comparé. Les nationalisations en France et à l'étranger. Tome II: Les nationalisations à l'étranger. Paris, Sirey, 1958.350 p.

39. "Le control du Parlement sur les entreprises nationalisées." Revue Politique et Parlementaire, 57 (644), Jan. 1955; 19-26.

40. Einaudi, M. , Byé, M., Rossi, E. Nationalization in France and Italy. Ithaca, N.Y., Cornell University Press, 1955. 260 p.

41. "L'expérience française des nationalisations." Vie Economique et Sociale, 27 (4), July-Sept. 1956; 233-243.

42. Fletcher, H.A. "The Régie Renault." In: Public Policy; Cambridge, Mass., Harvard University Graduate School of Public Administration, 1958.

43. Gozzard, G. "Le service d'exploitation industrielle des tabacs et des allumettes, " Revue Politique et Parlementaire, 58 (665), Feb. 1956; 156-169.

44. Lefaucheux, L. "Une entreprise nationalisée française: la Régie nationale des usines Renault." Revue de la Université de Bruxelles, 6 (4), Apr.-June 1954; 242-259.

45. Lewis, E. G. "Parliamentary control of nationalized industry in France." American Political Science Review, 51 (3), Sept.1957; 669-695.

46. Meynaud, J. "Etudes et dccuments sur l'entreprise publique." Revue Economique (Paris), 8 (3), May 1957; 494-504.

47. Quilliot, R. "Dix ans de nationalisation des houillères." Revue Sociale, 101, Nov. 1956; 391-400. 102, Dec. 1956; 532-544.

48. Vedel, G. "Le contrôle par les commissions parlementaires des entreprises industrielles nationalisées et des sociétés d'économie mixte." Droit Social, 18 (3), Mar. 1955; 137-147.

GERMANY

49. Arnold, H., Borchert, H., Schmidt, J. Ökonomik der sozialistichen Industrie in der Deutschen Demokratischen Republik; Lehrbuch. 2nd enlarged ed., Berlin, Verlag Die Wirtschaft, 1957. 591 p.

50. Chapel, Y. "Aperçu sur les services publics parastataux en Allemagne fédérale." Revue Internationale des Sciences Administratives, 22 (3), 1956; 119-145.

51. Chesaux, P. "Les projets de nationalisations de l'industrie allemande." Revue Economique et Sociale, 1952; 201-206.

52. Von Eynern, G. "Le controle des entreprises publiques par l'Etat dans la République Fédérale Allemande." Paper presented to Congress of International Political Science Association at Rome, 1958.

53. Kaufmann, E. "Subjects and forms of public economic activity in Germany" Paper presented to International Institute of Administrative Sciences Round Table, The Hague, 1954. 11 p.

54. Kelly, M. A. "Socialization of German industry." American Journal of Economics and Sociology, Jan. 1950.

55. Laptev, V. V. "Pravovoe polozenie narodnyh predprijatj v Germanskoj Demokraticeskoj Respublike." (The legal position of the state-owned enterprises in the German Democratic Republic.) Sovetskoe Gosudarstvo i Pravo, (2), 1955; 49-59.

56. Selbmann, F. "La nationalisation de l'industrie." Nouvelle Critique, 8 (73-74), Mar. Apr. 1956; 141-152.

INDIA

57. Baldwin, G. B. "Public enterprise in Indian industry." Pacific Affairs, 30 (1), March 1957; 3-21.

58. Chatterjee, S. K. "New patterns of public enterprise in India." Calcutta Review, 134 (2), Feb. 1955; 119-133.

59. Driver, D. C. "Indian coal industry. Nationalization of small coking collieries urged." Major Industries of India, 5, 1955-1956; 119-123.

60. Ghosh, A. B. "State and the Indian Coal industry." AICC Economic Review, 7 (19-20) 11 Feb. 1956; 75-80.

61. Lokanathan P. S. "The public sector in India." Indian Journal of Public Administration, 3 (1), Jan.-Mar. 1957; 9-15.

62. Matthai, J. "The case of nationalization." Indian Textile Journal, 66 (789) June 1956; 524-528. Journal of Indian Merchants' Chamber, 50 (5), May 1956; 147-150.

63. Patnaik, R. C. "Public enterprise in India." Indian Economic Journal, 2 (3) Dec. 1954; 281-288.

64. Prasad, P. Some economic problems of public enterprises in India. Leiden, Stenfert Kroese, 1957. 244 p.

65. Prakash, O. "Industrial development corporations in India and Pakistan." Economic Journal, 67 (265), Mar. 1957; 40-48.

66. Rao, R.V. "Nationalized road transport services in Hyderabad." Indian Journal of Economics, 36 (140), July 1955; 121-128.

67. Sinha, S.K. "The state and industrial enterprise in India." Indian Journal of Political Science, 18 (2), Apr.-June 1957; 98-104.

68. Singh, J. B. "The National Small Industries Corporation." Eastern Economist (New Delhi), 25, 11 Nov. 1955; 751-752.

69. Spencer, D. L. "Mixed enterprise as a tool of economic development: India's contribution." American Journal of Economics and Sociology, 14 (2), Jan. 1955; 139-158.

70. Tripathi, P. C. "Public enterprises in India." Modern Review (Calcutta), 99 (5), May 1956; 370-374.

71. Vaish, M. C. The concept of mixed economy and India. Agra, Nath Publishing House, 1954.26 p.

INDONESIA

72. The Government's program on industries. Ekonomi dan keuangan Indonesia, 11, Nov. 1954; 702-736.

IRELAND

73. Scully, M. "Parliamentary control of public corporations in Eire." Public Administration (London), 32 (4), Winter 1954; 455-462.

JAPAN

74. Hayashi, Y. "Modernization of Japan's industries and government enterprise." Asian Affairs (Tokyo), June, 1956.

75. Okabe, S. "Public corporations in Japan." Indian Journal of Public Administration, 1 (3), July-Sept.1955; 217-223.

76. Smith, T C. Political change and industrial development in Japan: government enterprise 1868-1880. Stanford, Calif., Stanford University Press, 1955. 126p.

77. Yanagawa, N. "Wagakuni ni okeru kôkyô - kihyô-tai no tokushitsu." (Characteristics of the public corporation in Japan.) Keizaigaku Kenkyû, 25 (1-2), Dec. 1956; 315-330.

NIGERIA

78. Hanson, A. H "Public enterprise in Nigeria: I. Federal public utilities." Public Administration (London), Winter 1958; 366-84.

ROMANIA

79. Rausser, V. "Die sozialistische Industrialisierung in der Rumanischen Volksrepublik." Wirtschaftswissenschaft, 5(7), Oct.-Nov.1957; 1068-1078.

TURKEY

80. Onar, S.S. "The analysis and the criticism of the causes of appearance of the public corporation in Turkey and the legal and administrative structure of these corporations." International Review of Administrative Sciences, 20 (1), 1954; 23-65.

81. Ulkmen, I.H. "Les entreprises industrielles et minières de l'Etat en Turquie." Annales de l'Economie Collective; 44 (522), Dec. 1956; 377-394.

82. Wegenstein, W.O. and Käser, G.W. Management and organization of the State monopolies in Turkey. New York, United Nations, 1954. 107 p.

UNITED KINGDOM

83. Davies, E. "Government policy and the public corporation." Political Quarterly, 26 (2), Apr.-June 1955; 104-116.

84. Federation of British Industries. Report on Nationalization. London, 1959. 68 p.

85. Florence, P. S. "Present problems in the nationalization of British industries." Indian Journal of Economics, 36 (140), July 1955; 13-48.

86. Foldes, L. "Control of nationalized industries." Public Law (London), 2(2), Summer 1957, 122-138.

87. Goldschmidt, D. Stahl und Staat; eine wirtschaftssoziologische Untersuchung zum britischen Nationalisierungsexperiment. Stuttgart, Ring-Verlag, 1956. 290 p.

88. Grove, J. W. "British public corporations: Some recent developments" Journal of Politics 18 (4), Nov. 1956; 651-677.

89. Hanson, A. H. "Parliament and the nationalized industries." Yorkshire Bulletin, 6 (2), Sept. 1954; 144-161.

90. Hobson, O. "The nationalised industries in Britain." Institute of Public Administration Review, 8 (1), Jan.-Mar. 1955; 23-32.

91. Irie, S. "Sengo eikoku sangyo kokuyu-ka nitsuzen-sei no kihonteki keihi." (A study of British nationalization.) Doshisha Daigaku Keizaigaku Ronshu, 5 (4) June 1954; 43-72.

92. Kelf-Cohen, R. Nationalisation in Britain, the end of a dogma. London, Macmillan, 1958. 310 p.

93. Keyes, L. S. "Some controversial aspects of the public corporation." Political Science Quarterly, 70 (1) Mar. 1955, 28-56.

94. Miller, A. O. Die Verstaatlichung des britisches Kohlenbergbaus. Zürich, Polygraphischer Verlag, 1955. 179 p.

95. "Nationalized industry - a new phase." Political Quarterly, 26 (2), Apr.-June 1955; 99-103.

96. Please, S. "Government control of the capital expenditure of the nationalized industries." Public Administration (London), 33 (1), Spring 1955; 31-41.

97. Reith (Lord). "Public corporations: need to examine control and structure." Public Administration (London), 34(4), Winter 1956; 351-354.

98. Roberts, C. A. "The National Coal Board and the Fleck Report." Public Administration (London), 35 (1), Spring 1957; 1-14.

99. Simon of Wythenshawe, Lord. The Boards of nationalized industries. London, Longmans, 1957. 54 p.

UNITED STATES

100. Milne, R. S. "Control of government corporations in the United States." Public Administration (London), 34 (4), Winter 1956; 355-364.

101. Schmidt, G "Government corporations in the U.S.A." Indian Journal of Economics, 37 (145), Oct. 1956; 197-204.

102. Seidman, H. "The government corporation in the United States." Public Administration (London)37Summer 1959; 103-114.

103. United States, Congress, House of Representatives Committee on Government Operations. Government in Business. Hearings report. Washington, U.S. Government Printing Office, 1954. 265 p.

URUGUAY

104. Sayagues, L.E. "Les établissements publics économiques en Uruguay." International Review of Administrative Sciences, 22 (1), 1956; 5-14.

PART B: MANAGEMENT OF PUBLIC INDUSTRY

General

105. Arakelian, A. Industrial Management in the U.S.S.R. Trans. by Ellsworth L. Raymond. Washington, Public Affairs Press, 1950.

106. Berliner, J. S. Factory and manager in the U.S.S.R. Cambridge, Mass., Harvard University Press, 1957.

107. Bienstock, G., Swartz, S.M., and Yugow, A. Management in Russian industry and agriculture. New York, Oxford University Press, 1944.

108. Boiteux, M. and others. Le fonctionnement des entreprises nationalisées en France. Paris, Dalloz, 1956. 416 p.

109. Boiteux, M. "Sur la gestion des monopoles publics astreints à l'équilibre budgetaires." Econometrica, 24 (1) Jan. 1956; 22-40.

110. Burkead, J. "Le contrôle des entreprises publiques dans les pays économiquement avancés et dans les pays sous-développés." Cahiers Economiques, July 1954, pp.1-9.

111. Chancel, P. "De l'organisation administrative dans le secteur public." Revue Administrative, 8 (47), Sept.-Oct. 1955; 549-553.

112. Chang, Yu-nan. "Industrial administration in communist China." Western Political Quarterly, 9 (4) Dec. 1956; 850-872.

113. Das, N. "Management of State industries - problems and policies." Major Industries of India, 6, 1955-1956; 241-248.

114. Dwarkadas, R. "Accountability of nationalized industries." Indian Journal of Political Science, 17 (4), Oct.-Dec.1956; 302-310.

115. Fischer, C. E. "Bundeseigene Erwerbsunternehmen als Haushalt und Rechts problem." Finanzarchiv, 15 (3), 1955; 419-446.

116. Granick, D. Management of the industrial firm in the U.S.S.R. New York, Columbia University Press, 1954.346 p.

117. "How state industries should work." Banker, 106 (362), Mar.1956; 142-146.

118. Indian Institute of Public Administration. Administrative problems of state enterprises in India. New Delhi, 1958. 188 p.

119. Jacquignon, L. Le régime des biens des entreprises nationalisées. Paris, Dalloz, 1956. 2 vols., 675 p.

120. Johnson, E. L. "The accountability of the British nationalized industries." American Political Science Review, 48 (2), June 1954; 366-385.

121. Kontorowich, V. Der Betriebsplan des Industriebetriebes. Trans. from the Russian. Berlin, Verlag Die Wirtschaft, 1955. 439 p.

122. Lal, R. N. "The problem of administration and management in the public sector." Modern Review (Calcutta), 99 (6), June 1956; 463-466.

123. Maillet-Chassagne, M. Influence de la nationalisation sur la gestion des entreprises publiques. Paris, Société d'Editions d'Enseignment Supérieur, 1956.259 p.

124. Marcantonio, A. La gestion delle imprese pubbliche. Milan, Giuffré, 1956.118 p.

125. Narain, I. "Some aspects of the management of public enterprises." Indian Journal of Political Science, 17 (4), Oct.-Dec.1956; 360-377. 18 (2), Apr.-June 1957; 119-134.

126. Niyogi, S. P. "Management and finance of public enterprises." Indian Economic Journal 2 (3), Dec. 1954; 274-280.

127. Onida, P. "Problèmes de gestion et d'organisation dans les entreprises publiques et les entreprises privées." Tecnica della Organizzazione nelle Pubbliche Amministrazioni, 4, 1955.

128. Patnaik, R. C. "Management of nationalized industry in India." Indian Journal of Political Science, 17 (4) Oct.-Dec.1956; 331-340.

129. Rama Sastri, J.V.S. "Managerial implications of nationalization in India and Great Britain." India Quarterly, 11 (1), Jan.-Mar.1955; 55-63.

130. Rama Sastri, J.V.S. Nationalization and the managerial role: a theoretical study. Bombay, Popular Book Depot, 1957. 119 p.

131. Reddy, K.C. "Management of state enterprises - some aspects outlined." Major Industries of India, 4, 1954-55; 81-85.

132. Reiche, H. "Produktions-,Arbeitskräfte und Finanz berichterstatung der sozialistischen Industrie Betriebe 1957." Statistische Praxis, 11 (12), Dec. 1596; 206-207.

133. Rivero, J. "Le fonctionnement des entreprises nationalisées." Droit Social 18 (9) Nov. 1955; 533-538.

134. Saraiya, R. G. "Administration of nationalized undertakings." Journal of Indian Merchants' Chamber, 50 (9) Sept. 1956; 282-285. Indian Journal of Public Administration, 2 (2), April-June 1956: 111-120.

135. Sholomovich, I. A. Analiz Khoziaistuennoi deiatel'nosti promyshlennogo predpriiatiia. (Analysis of managerial performance in an industrial enterprise.). Gosfinizdat, 1950.

136. Shukla, M.C. Administrative problems of public enterprises in India. Delhi, Chand, 1959.232 p.

137. "Some problems in the organization and administration of public enterprises in the industrial field." Annals of Collective Economy, 26 (2), Apr.-June 1955; 144-204.

138. Sunderam, V.S. "Management of public enterprises." Indian Economic Journal, 2 (3) Dec. 1954, pp. 312-318.

139. Tiwary, K.N. "Some aspects of the management of state enterprises in India." Indian Economic Journal,2 (3) Dec. 1954; 319-327.

140. Union of Soviet Socialist Republics Verkhovny; Sovet. On the further improvement of management in industry and construction in the U.S.S.R.; materials of the 7th session of the Supreme Soviet of the U.S.S.R., May 7-10, 1957. Moscow, Foreign Languages Publishing House, 1957.87 p.

141. United Kingdom. House of Commons. Select Committee on Nationalised Industries. 1st report; House of Commons Paper 304, 1957 212 p. 2nd report; House of Commons Papers 187 and 187-I. 32p + 169 p.

142. United Kingdom, Ministry of Fuel and Power, Committee of Inquiry into the Electricity Supply Industry. Report. H.M.Stationery Office, 1956. 190 p. ("Herbert Report.")

143. Université de Grenoble, Troisième Colloque des Facultés de Droit. Le fonctionnement des entreprises nationalisées en France. Paris, Dalloz, 1956.414 p.

Structural Organization and Reorganization

144. Bernard, F. "La centralisation administrative dans les houillères britanniques." Revue Française de Science Politique, 4 (3), July-Sept.1954; 564579.

145. Chambre, H. "Reorganisation de l'industrie sovietique." Revue de l'Action Populaire, 109 June 1957; 711-726.

145a Kamenizer, S. E. Organisation und Planung des sozialistischen Industriebetriebes. (Organization and planning of the Socialist industrial enterprise.) 3rd ed., Berlin-Ost, Verlag Die Wirtschaft, 1954. 528 p.

146. Kao, H. K. "Decentralization of Soviet industry." Free China Review (Taipei), 7, Aug. 1957; 21-26.

147. Myers, C. A "Labour problems of rationalisation: the experience of India." International Labour Review (Geneva), 73, May 1956; 431-450.

148. Nottage, R. "O and M in the nationalized industries." Public Administration (London), 33 (4), Winter 1955; 395-400.

149. Paranjape, H. K. "Organization of state enterprises in India." Indian Economic Journal, 2 (2), Oct. 1954;131-140.

150. Rangarajan, D. "Organizational forms of public enterprises and their effect on management." Indian Economic Journal, 2 (3) Dec. 1954; 299-306.

151. Shoebridge, A. A. "Administrative organization and functions of the Department of Government Transport, New South Wales." Public Administration (Sydney), Sept. 1958; 238-248.

Productivity

152. Ardant, G. "The measurement of productivity in state undertakings and public services." Mysore Labour Gazette, 6 (4), Jan. 1954; 7-9.

153. Gliksman, J G. "Soviet labour productivity." New Leader (New York), 34, 9Sept. 1957; 10-13.

154. International Labour Organisation. Asian Advisory Committee. 6th Session, March 1955. Problems of increasing productivity in Asian countries, with particular reference to the importance of workers' living standards and of mutual understanding and co-operation between employers and workers. 41 p. mimeog.

155. Kowalska, H. "Productivity in the planned economies of eastern Europe." Far Eastern Economic Review (Hong Kong), 22, 25 Apr. 1957; 513-517.

156. Menon, V. K. R. "Role of management in a welfare state-stress on productivity of labour." Major Industries of India, 5, 1955-1956; 249-259.

157. Smith, Sir Harold. "Responsibility and efficiency in a nationalized industry." Personnel Management, Dec. 1958; 225-230.

158. Tietze, G. "Zu einigen wichtigen Grundsätzen der Organisation des innerbetrieblichen Wettbewerbs in den sozialistischen Industriebetrieben." Wirtschaftswissen-schaft, 4 (5), Oct. 1596; 102-111.

159. "Zur Wirtschaftlichkeit der volkseignen Wirtschaft in der Sowjetzone." (On the efficiency of the state-owned economy in the Soviet Zone.) Deutsches Institut für Wirtschaftfor schung Wochenbericht, 21 (51/52), 22 Dec. 1954; 206-208.

Costing and Accounting

160. Gupta, C. B. "Role of costing in public enterprise." Indian Journal of Commerce, 7 (11), June 1954; 11-16.

161. Munch. P. "Die Stadtwerke und die Kämerer." (Communal enterprises and finance administrators.) Städtetag, 7 (4) Apr.1954; 143-146.

162. Ronson, G "Use of accounting as an aid to management in industrial enterprises in under-developed countries." United Nations Industrialization and Productivity Bulletin, 1, April 1958; 56-62.

163. Sakov, M. Hozrascët i rentabelnost' socialisticeskih predprijatij. (Economic accounting and profitability of socialist enterprises.) Moscow, Gos. Izd-vo polit. Lit-ry, 1955. 104 p.

164. Shah, A. K. "Cost accounting and management in public enterprise." Indian Journal of Commerce, 7 (1), Mar. 1954; 41-48.

165. Tandon, B. N. "Cost accounting and public enterprise." Indian Journal of Commerce, 7 (1), Mar. 1954; 35-39.

Personnel Relations

(Labour Relations, Worker Self-Government, Training, Communications)

166. Adji Mitreski, C. "La gestion ouvrière des entreprises en Yougoslavie." Revue des Science Economiques, 30 (103) Sept. 1955. 137-150.

167. Avery, R. S. Experiment in management: Personnel decentralization in the Tennessee Valley Authority. Knoxville, University of Tennessee Press, 1954. 212 p.

168. Avery, R. S. "The T.V.A. and labor relations: a review." Journal of Politics 16 (3), Aug. 1954; 413-440.

169 Baldwin, G. B. Beyond nationalization; the labor problems of British coal. Cambridge, Harvard University Press, 1955. 324 p.

170. Case, H. L. Personnel policy in a public agency; the T.V A.experience. New York, Harper, 1955.176 p.

171. Chester, T. E. and Clegg, H.A. "Nationalization and the problem of communication." British Management Review, 12 (5), Oct. 1954; 307-316.

172. Erdmann, R. "La condition des travailleurs dans les entreprises d'économie collective de la République fédérale d'Allemagne." Annales de l'Economie Collective, 43 (507-509), Sept.-Nov. 1955; 417-435; Annals of Collective Economy, 26 (2), Apr.-June 1955; 97-110.

173. Fusilier, R. "Le statut du personnel de l'Electricité de France." Revue Politique et Parlementaire, 57 (449), June 1955; 246-265.

174. Fusilier, R. "Le statut du personnel des enterprises nationalisés comparé au statut des agents de la fonction publique." Revue de Droit Public et de la Science Politique en France et à l'Etranger, 72 (2), May-June 1956 501-525.

175. Grozdanic, S. "Sieben Jahre der Entwicklung der Arbeiterselbstverwaltung im Jugoslawien." Rote Revue, 36 (8), Aug. 1957; 235-247.

176. Hildebrandt, W. "Personnele Probleme des 'Managements' in der Sowjetwirtschaft." Wirtschaftdienst, 36 (9), Sept.1956; 498-506.

177. International Labour Organisation. Asian Technical Conference on Vocational Training for Industry. Rangoon, 28 Nov. - 10 Dec. 1955. Exchange of views on the present state of development of vocational training for industry in Asian countries. 1955. 84 p. mimeog.

178. Jacobi, E. Die Ausbildung und Qualifizierung der Arbeiter in den volkseigenen Betrieben der Deutschen Demokratischen Republik. Berlin, Deutscher Zentral verlag, 1956. 62 p.

179. Loucks, William N. "Workers' self-government in Yugoslav industry." World Politics, Oct. 1958; 68-82.

180. Lozada, Faustino R. "Supervisory and executive development: its relevance to government corporations." Philippine Journal of Public Administration, Oct. 1958; 342-344.

181. Martinson, H. M. "T.V.A. improves its communications."Public Administration Review, 14 (1), Winter 1954; 52-54.

182. Moore, W. E. "Labor attitudes toward industrialization in underdeveloped countries." American Economic Review, 45 (2), May 1955; 156-165.

183. Rosner, J. "La gestion ouvrière en Pologne." Revue Internationale de Travail 76 (3),Sept. 1957; 289-309.

184. Saxena, S. K. "Nationalisation and industrial conflict; example of British coal-mining." Den Haag,M. Nijhoff, 1955.185 p.

185. Schmidt, W. "Das Mitbestimmungsrecht in den öffentlichen Verwaltungen und Betrieben." (Co-determination im public administration and in state-owned enterprises.) Annalen der Gemeinwirtschaft, 22 (4), Sept.-Dec.1953; 366-381.

186. Sonin, M. Die betriebliche Ausbildung von Facharbeiten. Translated from the Russian by H. Michaelis. Berlin, Verlag Die Wirtschaft, 1956 202 p.

187. Spero, S. Labor Relations in British Nationalized Industry. New York, New York University Press, 1955. 83 p.

188. Thamm, J. "Zur Diskussion über die weitere Verbesserung der Leitung der Volkseigenen Industrie." Wirtschaft Wissenschaft, 5 (3), Apr.-May 1957 346-361.

189. Upton, T.H. "Personnel management and problems in a public utility." Public Administration (Sydney), 15 (3) Sept. 1956; 232-240.

190. Wolff, G. "Orientation et formation des ingénieurs et cadres supérieurs des entreprises privées, des entreprises nationalisées et du secteur public." Journal Officiel. Avis et Rapports du Conseil Economique (France) (8), 26 Mar. 1957; 353-366.

PART C: INDUSTRY IN DEVELOPING COUNTRIES

General

191 Baade, F. "Das Interesse der alten Industrieländer an der Industrialisierung der Entwicklungsländer." Offene Welt, 49, May-June 1957; 263-277.

192. Berna, J.J. "Industrialization in underdeveloped countries." Social Order, 7 (1), Jan. 1957; 14-28.

193. Brahmanand, P.R., and Vakil, C.N. "Technical knowledge and managerial capacity as limiting factors on industrial expansion in underdeveloped countries." In Economic Progress, Leon H. Dupriez, ed., Institut de Recherches Economiques et Sociales, Louvain, 1955. In French, in Bulletin International des Sciences Sociales, 6 (2), 1954; 238-244.

194. Egner, E "Industrialisierungsprobleme in unterentwickelten Ländern." Offene Welt, 59, May-June 1957; 252-262.

195. Lewis, W.A. "Economic and social problems of transition to an industrial economy." Far Eastern Economic Review (HongKong), 22, 2 May 1957; 547.

196. Mandelbaum, K. and Schneider, J.R L. The industrialization of backward areas. 2nd ed. Oxford, Blackwell, 1955. 111 p.

197. Moore, W.E. "Labor attitudes toward industrialization in underdeveloped countries." American Economic Review, 45, May 1955; 156-165, 185-196.

198. Singer, H.W. "Problèmes de l'industrialisation des pays insuffisament développés." Bulletin International des Sciences Sociales, 6 (2), 1954; 245-255. Also in English.

199. United Nations. Bibliography on industrialization in under-developed countries. New York, United Nations, 1956. 216 p.

200. United Nations Economic development of underdeveloped countries: efforts towards raising productivity in industry; working paper. New York, United Nations, 1954. 50 p.

201. United Nations. Economic development of under-developed countries: evolution and functioning of development corporations; working paper. New York, United Nations, 1955 81 p. mimeog.

202. United Nations Economic development of under-developed countries: survey of current work on industrialization and productivity, New York, United Nations, 1956. 151 p. , mimeog.

203. United Nations. Industrialization and Productivity Bulletin. No.1 , 1958; 77 p. No.2, 1959; 70p.

204. United Nations. Management of Industrial enterprises in under-developed countries. New York, United Nations, 1958. 35 p.

205. United Nations. "Problems of size of plant in industry in under-developed countries." Industrialization and productivity bulletin No.2; 7-25.

206. United Nations. Processes and problems of industrialization in under-developed countries. New York, United Nations, 1954. 152 p.

207. United Nations. "Selected list of titles on industrialization." Industrialization and Productivity Bulletin, 1, Apr.1958; 71-75.

208. United Nations "Some problems of industrial management reported by technical assistance experts." Industrialization and productivity Bulletin No. 2; 53-57.

209. Wynne-Roberts, C. R "Labour aspects of management; some factors affecting the contribution of the worker to the efficiency of industrial operations in under-developed countries." United Nations, Industrialization and Productivity Bulletin No.2; 42-45.

Outside ECAFE Region

Europe

210. Azzonē, G. "L'industrializzazione del Mezzogiorno." Industria Meridionale, 5 (7), July 1956; 541-568.

211. Cenzato, G. "Situazione e prospettive per l'industrializzazione del Mezzogiorno." Industria Meridionale, 4 (11), Nov. 1955; 951-984.

212. "Industrializing Hungary." Petroleum Press Service (London), 22, June 1955; 211-213.

213. Kulcsar, I. "Today and tomorrow in Hungary's industry." New Times (Moscow) 9, Feb. 1959; 24-26.

214. Launais, A. de. "L'essor industriel hongrois." Economie et Réalités Mondiales (Paris), May 1955; 71-79.

215. Luca, M. de. "L'industrializzazione del Mezzogiorno e il suo finanziamento." Industria Meridionale, 5 (1-2), Jan.-Feb. 1956; 5-12.

216. Micheli, A. de. "Prospettive di industrializzazione del Mezzogiorno d'Italia." Rivista di Politica Economica, 45(9-10) Sept.-Oct. 1955; 757-764.

217. Morić, Z. "Yugoslav industry on the world market." Review of International Affairs (Belgrade), 10,1May 1959; 13-15.

218. National Bank of Greece and Athens. Industrial Credit Division. Problems and development of Greek industry. Athens, 1957 v.1

219. Sachs, I. "A note on Polish industrialization; its results and prospects." Indian Economic Journal (Bombay), 6, Jan. 1959; 332-341.

220. Solari, L. "L'industrializzazione del Mezzogiorno." Industria Meridionale, 5 (5-6), May-June 1956; 285-327.

221. Taubingen, L. M. Von. "Die Entwicklung der ungarischen Industrie." Wirtschaftsdienst(Hamburg), 35, June 1955; 350-352.

222. Tosana, I. "Sviluoop industriale del Mezzogiorno nel 1955." Industria Meridionale, 4 (12), Dec. 1955; 1099-1111.

223. Tramonte, S. Sviluppo economico e industrializzazione del Mezzogiorno. Bari, Laterza, 1954. 267 p.

224. Zauberman, A Industrial development in Czechoslovakia, East Germany, and Poland, 1937-1956 Oxford, Oxford University Press, 1958.70p.

Middle East

225. Abou Nosseir, M. "La nouvelle organisation industrielle en Egypte." Société Belge d'Etudes et d'Expansion (Liège), 54, Mar.-Apr.1955; 271-274.

226. Allen, J.K. and others. Industrial economy of Israel. Prepared for U.S. operations Mission in Israel and Ministry of Commerce and Industry. Menlo Park, Calif., 1955. 346 p.

227. Arnsberg, P. "Strukturprobleme der israelischen Wirtschaft." Volkswirt (Frankfurt a.M.), 13, 24 Jan. 1959; 141-142.

228. Asfour, E. "Industrial development in Lebanon." Middle East Economic Papers (Beirut), 1955.; 1-16.

229. Berger, L. "Die Industriepolitik in Israel." Wirtschaftdienst (Hamburg) 39, June 1959; 336-340.

230. Bureau des Documentations Syriennes et Arabes. L'industrie syrienne. Damascus, 1955. 163 p.

231. "Egyptian industry reviewed." Economic Bulletin (Cairo), 8 (1), 1955; 18-25.

232 Ghani al Dalli, A. "Problems of industrial enterprise in Iraq." Middle Eastern Economic Papers, 1954; 37-55.

233. Grunwald, K. "The industrialization of the Lebanon and Syria." Weltwirtschaftliches Archiv, 76 (1), 56 (1), 1956; 141-178.

234. Harbison,F.H. and Ibrahim, I.A "Some labour problems of industrialization in Egypt." Annals of American Academy of Political Science, 305, May 1956; 114-124.

235. Mallakh, R. Industrial development of the Arab states. New York, Arab Information Center, 1955.31p.

236. Mansfield, P. "Lebanon industrializes." Middle East Forum (Beirut), 32, Apr. 1957; 13-15 , 35.

237. Mourad, L. "L'industrie syrienne." Notes et Etudes Documentaires (Paris), 2041, 5 July 1955; 31-37.

238. Okyar, O. "Economic framework for industrialization; Turkish experiences in retrospect." Middle Eastern Affairs (New York), 9, Aug. - Sept. 1958; 261-267.

239. Samman, A., and Yueyati, R. "Antecedentes y bases de la industrialización de Siria." Cuadernos Africanos y Orientales, 30, 1955; 25-33.

240. Tumertekin, E. "The iron and steel industry of Turkey." Economic Geography 31 (2), Apr.1955; 179-184.

241. United Nations. The Development of Manufacturing Industry in Egypt, Israel, and Turkey. New York: United Nations, 1958. 131 p.

Within ECAFE Region

General

242. "Le développement de la production industrielle dans les pays de démocratie populaire d'Asie." Etudes Economiques (Paris), 108-109, 1958; 84-103.

243."Independence in Asia and industrialisation." Far Eastern Economic Review (HongKong), 19, 13 Oct. 1955; 454-455.

244. United Nations. "Economic development and planning in Asia and the Far East: industrialization." Economic Bulletin for Asia and the Far East, 9 (3), Dec. 1958; 1-66.

245. United Nations. Economic Survey of Asia and the Far East, 1958. New York, United Nations , 1959 pp.66-158 contain a review of post-war industrialization in the ECAFE Region.

246. United Nations. Economic Commission for Asia and the Far East. "Location of Industry." Industrial Development Series, June 1959.

247. Wu, Y. -Li, and North, R. C. "Chine et Inde: deux voies vers l'industrialisation." Problème du Communisme, 2 (3), May-June 1955; 2129. Also in English, Problems of Communism (Washington), 4 ,May-June 1955; 13-19.

Individual Countries

BURMA

248. "La Birmanie va devenir une des principales nations industrielles du

Sud-est asiatique." Industries et Travaux d'Outremer (Paris), 3, Feb. 1955: 91-93, 108.

CEYLON

249. "La politique industrielle du Gouvernement de Ceylan." Asie Nouvelle (Paris), 4 (48), 1954; 259-261.

CHINA (Mainland)

250. Adler, S. "China; world industrial power." Nation (New York), 188, 18 Apr. 1959; 327-331.

251. Astaf'ev, G. "Kitajskaja Narodnaja Respublika na puti socialist iceskoj industrializacii." (The Chinese People's Republic on the road to socialist industrialization.) Planovoe Hozjajstva, (6), 1954; 71-84.

252. Astaf'ev, G. "Industrial'noe razvitie Kitajskoj Narodnoj Respubliki." (The industrial development of the Chinese People's Republic.) Vestnik Statistiki, (5) Sept.-Oct. 1954; 29-38.

253. Chen, Yun. "The distribution of industry in China." Peking Review (Peking), 2, 10 Mar. 1959; 6-8.

254. Crocker , H.C. "Industrial development in China." Contemporary Review (London), 1102, Oct. 1957; 218-220.

255. Erroll, F. J. "Industrial progress in China." Geographical Magazine (London), 31, Oct. 1958; 265-276.

256. Erselcuk, M ."The iron and steel industry in China." Economic Geography, 34 (2), Oct. 1956; 347-371.

257. Gansin, G. Kitajskaja narodnaja respublica na puti socialisticeskoj industrializacii. (The Chinese People's Republic on the way to socialist industrialization.) Moscow. Gos. Izd-vo polit. Lit-ry, 1955. 192 p.

258. Goburkov, A. "Socialisticeskaja industrializacija kitajskoj Narod noj Respubliki." (The socialist industrialization of the Chinese People's Republic.) Voprosy Ekonomiki, (2), Feb. 1955; 57-69.

259. Grossmann, B. "Die Situation der Chinesischen Industrie." Wirtschaftdienst, 36 (9), Sept. 1956; 522-524.

260. Hsia, R. "China's industrial growth, 1953-1954." Annals of the American Academy of Political and Social Science (Philadelphia), 321, Jan. 1959; 71-81.

261. "Industrialization of Central China." Far Eastern Economic Review (HongKong), 22,16 May 1957; 614-615.

262. "Industrialization of China." Far Eastern Economic Review (HongKong), 19, 10 Nov. 1955; 577-581.

263. Kirby, E. S. "The basis of light industry in China." Far Eastern Review (HongKong), 22, 25 Apr.1957; 513-517.

264. Li, Choh-Ming. Economic development of Communist China; an appraisal of the first five years of industrialization. Berkeley, California University Press, 1959. 284 p.

265. Maklakov, A. "Razvitie promyslennosti kitajskoj Narodnoj Respubliki v pervoj pjatiletke." (Development of the industry of the Chinese People's Republic during the first five-year plan.) Kommunist, (13), Sept.1955; 50-59.

266. Omprakash. "Industrial growth in People's China." Indian Journal of Economics, 36 (100) , July 1955; 49-72.

CHINA (Taiwan)

267. Li, K.T. "The effect of industrialisation in Taiwan on the welfare of the people." Industry of Free China (Taiwan), 4, Aug. 1955; 11-19.

268. Li, T. K. "Industrial development in Taiwan in 1957." Far Eastern Economic Review (HongKong), 25, 3 July 1958; 21-24.

FEDERATION OF MALAYA

269 Kennedy, N. A. J. "Malaya's industrial development." Far Eastern Economic Review (HongKong), 26, 16 Apr. 1959; 537-539.

HONGKONG

270. Benham, F. C. "The growth of manufacturing in Hong Kong." International Affairs, 32 (4), Oct. 1956; 456-463.

271. Davies, G. "Promotion of industrial development in HongKong." Far Eastern Economic Review (HongKong), 25, 31 July 1958; 129-130.

INDIA

272. Anjaria, J.J. "Industrial planning in India." Current History (Philadelphia), 30, Feb. 1956; 98-103.

273. Brisby, M.D.J. "Industrial development in India." Engineer (London), 203, 14 June 1957; 917-919.

274. Das, N. "The future of industrial enterprise in India." Capital (Calcutta) supplement, 22 Dec. 1955; 31-33.

275. Desai, B. C. "Die industrielle Entwicklung in Indien." Zeitschrift für die gesamte Staatswissenschaft, 113 (1), 1957; 19-39.

276. Dey, S.K. Industrial development: a new approach. Calcutta, Thacker, Spink, 1955. 82 p.

277. Gadgil, D. R. The industrial evolution of India. Calcutta, Geoffrey Cumberlege, Oxford University Press, 1954. 317 p.

278. Garvin, J. "The pattern of Indian industrial development." Asian Review, 55, (193), Jan. 1957; 3-13.

279. Ghosh, J.C. "India's iron and steel industry - bold programme of expansion." Major Industries of India, 5, 1955-1956; 203-209.

280. Gopal, M.H. "Indian industrial policy: its evolution." Indian Economic Journal (Bombay), 4, Apr.1957; 313-339.

281. "Industrial development." Mysore Information Bulletin; 20 (1), Apr. 1956; 5-12.

282. "Industrial expansion in recent years." Journal of Indian Merchants' Chamber, 49(10), Oct. 1955; 515-526.

283. "An industrial plan for Uttar Pradesh." Eastern Economist (New Delhi), 27, 5 Oct. 1956; 500.

284. Kirk, W. "The cotton and jute industries of India; a study in concentration and dispersal." Scottish Geographical Magazine (Edinburgh), 72, Apr. 1956; 38-52.

285. Kuchhal, S.C. The Industrial economy of India. Allahabad, Chaitanya Pub. House, 1959. 747 p.

286. Kuriyan, G. "Industrial progress in India." Current History (Philadelphia), 36 Mar. 1959; 158-164.

287. Myers, C.A. Labor problems in the industrialization of India. Cambridge, Mass, Harvard University Press, 1959. 297 p.

288. Rajarathnam, S.S. "The industrial development of India, 1918-1944." Ceylon Economist, 3 (1), Sept. 1954; 27-37.

289. Ramaswami, A. "Industries in the second five year plan of India; an economic survey." Asian Studies (Bombay), 1, Feb. 1957; 107-113.

290. Reddi, C.G. "Industrial development." Madras Information Bulletin, 10(2) Feb. 1956; 3-8 32.

291. Rosen, G. Industrial change in India; industrial growth, capital requirements, and technological change, 1937-1955. Glencoe, Ill., The Free Press,(1958). 243 p.

292 Rosen, G. "Long-term problems of industrialization in India." Economic Weekly (Bombay), 9, 3 Aug. 1957; 1019, 1021, 1023-24.

293. Sarma, A.K. "The industrial development of Assam." Journal of University of Gauhati, 6, 1955; 63-80.

294. Singh, U. "Industrial progress in Punjab." AICC Economic Review, 7 (19-20), 11 Feb. 1956; 91-93.

INDONESIA

296. Djojohadikusumo, S. "The Government's program on industries." Ekonomi dan Keuangan Indonesia (Djakarta), 7, Nov. 1954; 702-736.

297. Kraal, A. "Enige aspecten van de ontwikkeling der industrie in Indonesie." Ekonomi dan Keuangan Indonesia (Djakarta), 10,Apr.-May 1957; 252-313.

298. Laoh, H. "Problems of industrialization and investment in Indonesia." Berita Mapie (Amsterdam), 4, Aug.-Sept.1955; 70-86.

299. Neuman, A.M. de. Industrial development in Indonesia. Cambridge, Students' Bookshops, (1955). 40p.

300. Oorschot, H.J. De ontwikkeling van de nijverheid in Indonesie." (The development of industry in Indonesia.) Den Haag, W.van Hoeve, 1956. 146 p.

301. Sanoesi, R. "Toward Indonesian industrialization." Berita Mapie (Amsterdam), 4, Aug.-Sept. 1955; 41-45.

302. Stepanek, J.E. Industrial development in Indonesia. New York, United Nations, 1955. 161 p.

303. Tinbergen, J. Overzicht over de industrialisatie van Indonesie." Den Haag, 1955.

304. Wallace, W.D. "Indonesia's industrial program." Foreign Trade (Ottawa), 103, 28 May 1955; 23.

305. Wallace, W.D. "Indonesia tries industrialization." Foreign Trade (Ottawa), 103, 30 Apr. 1955; 25-26.

JAPAN

306. Allen, G. C. "Industrial production and productivity in Japan." Westminster Bank Review (London), Aug. 1955; 1-4.

307. Ando, Toyoroku. "Interrelations between large and small industrial enterprises in Japan." United Nations Industrialization and Productivity Bulletin No. 2; 26-35.

308. Arizawa, H. Kindai Kogyo no Ayumi; Nihon ni okeru 5 tsu no sangyô. (The progress of modern industry in Japan.) Tokyo, Dôbunkan, 1956 210 p.

309. Ashizawa, O. "Iron and steel industry reconstructed." Contemporary Japan, 24 (4-6), 1956; 273-284.

310. Asia Kyokai. An outline of Japanese industry. Tokyo, 1955.130 p.

311. Asia Kyokai. The smaller industry in Japan. Tokyo, Asia Kyokai, 1957. 148 p.

312. Denryoku Keizai Kenkyujo, ed. Nihon Sangyô-Kôzô no Kadai. (Problems of the industrial structure of Japan.) Tokyo, Chûô Kôron-sha, 1955.534 p.

313. "L'evolution de l'économie japonaise, 1945-1954 - ressources énergétiques et production industrielle." Notes et Etudes Documentaires (Paris), 2078, 24 Sept. 1955; 1-52.

314. "Industry in Japan today." Oriental Economist, 23 (535), May 1955; 240-253.

315. Kimura, K "Dawn of modern industry in Japan." Contemporary Japan (Tokyo), 23 (7-9), 1955; 483-494.

316. Kuromatsu, I. "Wagakuni Kôgyô-Kozô no Keisei." (The formation of our industrial structure.) Keizaigaku Ronsô, 6 (1), Feb. 1955; 41-63.

317. Levine, Solomon B. Industrial Relations in Postwar Japan. University of Illinois Press, 1959. 200 p.

318. Lockwood, W. The Economic Development of Japan. New York, 1954.

319. Minoguchi, T. "Productivity and wage problem of Japan's medium and small manufacturing enterprises." Asian Affairs, 2 (2), June 1957; 143-153.

320. Pigulevskaia, E. "Obnovlenie osnovnogo Kapitala iaponskoi promyshlennosti i razvitie poslevoennogo tsikla." (Renewal of the fixed capital of Japanese industry and development of the post-war cycle.) Mirovaia ekonomika i mezhdunarodnye ot nosheniia (Moskow), 10, Oct. 1958; 26-36.

321. Seki, M. "Japan's smaller enterprises and financial problems." Asian Affairs, 2 (2), June 1957; 154-171.

322. Suga, K. "Industrial and economic recovery of Japan." Contemporary Japan (Tokyo), 23 (10-12), 1955; 626-649.

323. "Survey of business of Japanese industries." Far Eastern Review (HongKong) 18 (5), 1955; 144-149.

324. "Trend of Japanese industries." Fuji Bank Bulletin (Tokyo), 6 (1), 1955; 21-35.

325. Yamanaka, T. and Kobayashi, Y. The history and structure of Japan's small and medium industries; with two specific surveys. Tokyo, The Science Council of Japan, 1957. 89 p.

PAKISTAN

326. Azimuddin. "Progress report on industrialization." Industrial Recorder (Karachi), 4 (5), 1955; 293-298.

327. "Development of heavy industry." Enterprise (Dacca), 4, 31 Dec. 1955; 31-32.

328. "Development of industries in Pakistan." Weekly Bulletin (Karachi), 141, 8 Sept. 1955; 9-65.

329. Hussain, M.Y. "Pakistan's progress toward industrialization." Economics and Commerce (Lahore), 1, July 1955; 394-399.

330. "Industrial development of Pakistan." Far Eastern Economic Review (HongKong) 22,18 Apr. 1957; 499-502.

331. "Industrial progress in Pakistan." Asian Review, 51 (188), Oct. 1955; 292-299.

332. Innes, F. "Industrialisation in Pakistan." New Commonwealth (London), 30, 19 Sept. 1955; 273-277.

333. Khurshid, M. "L'industrie au Pakistan." Revue de la Société Belge d'Etudes et d'Expansion (Liege), 182, Aug.-Sept.-Oct. 1958; 728-732.

334. Nawaz, A.S. "Eight years of industrial development in Pakistan." Enterprise (Dacca), 4, 31 Dec. 1955; 21-22.

335. "Pakistan builds her industries." New Commonwealth (London), 33, 15 Apr. 1957; 388-389.

336. "Panorama du developpement industriel et des travaux publics au Pakistan." Industries et Travaux d'Outremer (Paris), 7, Mar. 1959; 166-170.

337. Sumar, A.K. "Our industrial and commercial policies." Pakistan Economist (Karachi), 9, 25 Feb. 1957 13-14, 24.

338. Uzair, M "Industrial finance and initiative in Pakistan." Indian Journal of Economics, 36, July 1955.

PHILIPPINES

339. Abadilla, D.C. "Are we going to industrialize?" Commerce (Manila), 51, Mar. 1955; 6-7, 26.

340. "The development of various industries in the Philippines." Bataan (Washington), 13, Dec. 1955, 4-6, 22.

341. "For an industrialized Philippines." Agricultural and Industrial Life (Manila), 18, Sept. 1956; 40.

342. Henares, L. "New approach to industrialization." Industrial Philippines (Manila), 5, Oct. 1955; 6-9 .

343. Montelibano, A. "Financing our industrial development." Industrial Philippines (Manila), 6, Feb. 1956; 2-5.

344. Puyat, G.J. "Industrialization, the Key to progress." Philippine Economy Review (Manila), 2, June-July 1956; 5-6.

345. Villanueva. R. "Industrialization: our national concern." Industrial Philippines (Manila), 6, July 1956; 14-15.

346. Villanueva, R. "The state of the Philippine manufacturing industry." Far Eastern Economic Review (HongKong), 25: 554-558, 30 October 1958; 590-592, 6 Nov. 1958; 624-627, 13 Nov. 1958; 720-723, 4 Dec. 1958

THAILAND

347. Ratanarat, C. "Prates Thai Kaun mee ootsahakarm ru mai?" (Should Thailand be industrialized?) Ootsahakorn, 8 (2), Apr. 1954; 1-11.

348. Surugkaga, B. "Prates Thai Kuan mee Karn ootsahakarm." (Thailand should develop her industries.) Ootsahakorn, 8 (4), Oct. 1954; 20-23.

349. Visessamit, O. "Putjai samkan nai karn Kauna Kong Karn ootsahakarm." (Important factors in the development of industry.) Ootsahakorn, 8 (2) Apr. 1954; 16-27.

VIETNAM

350. Vietnam, Industrial Development Center. Investing in Viet-Nam. Saigon, (1957?). 55 p.

SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

A BIBLIOGRAPHY OF PUBLIC ENTERPRISE MANAGEMENT : SUPPLEMENT

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Operational Paper No. 6

A BIBLIOGRAPHY OF PUBLIC ENTERPRISE MANAGEMENT : SUPPLEMENT

1. PUBLIC ENTERPRISES

1.1 GENERAL

1. AMERICAN ECONOMIC ASSOCIATION. COMMITTEE : *Readings in industrial organization and public policy*, ed. by Richard B. Heflebower and George W. Stocking. Homewood, Ill., Richard D. Irwin, 1958. xi, 426p. (Series of republished articles on economics).
2. AMERICAN ECONOMIC ASSOCIATION. COMMITTEE : *Readings in the social control of industry*, ed. by Edgar M. Hoover and Joel Dean. Philadelphia, The Blakiston Co., 1949. viii, 494p. (Series of republished articles on economics).
3. GOLDBERG (Sidney D.) & SEIDMAN (Harold) : *Government Corporation : Elements of a model charter*. Chicago, Ill., Public Administration Service, 1953. vii, 83p.
4. NEWMAN (Philip C.); *Public control of business : An international approach*. New York, Frederick A. Praeger, 1956. ii, 500p.
5. ROBSON (W.A.). *Ed. Problems of nationalised industry*. London, George Allen and Unwin Ltd., 1952. 390p.
6. KOONTZ (Harold) & GABLE (Richard W.) : *Public control of economic enterprise*. New York, McGraw-Hill Book Co., 1956. xii, 851p.

1.2 INDIVIDUAL COUNTRIES

1.21 *Ceylon*

7. CEYLON. COMMISSION ON GOVERNMENT COMMERCIAL UNDERTAKINGS. 1951. *Report*. Colombo, Government Publications Bureau, 1953. 133p.
8. GALBRAITH, J.K. "Industrial organization and economic development", in *Papers by Visiting Economists* (issued by the Planning Secretariat, Government of Ceylon, Colombo). Colombo, 1959.

1.22 *India*

9. KAPASI, B., "Public and private sectors : New outlook essential", *Journal of Indian Merchants Chamber*, 50(10), October 1956.
10. MASANI, M.R., "Whither nationalised industries—problem of reconciling enterprise with State Control", *Commerce* 88(2255), 8 May, 1954.
11. PURKAYASTHA, K. M., "Problem of public enterprise", *Economic Affairs*, 3(7), July 1958.

NOTES

12. RAMASASTRI, J.V.S., "The Industrial Development Corporation : A pioneering enterprise", *Indian Journal of Economics*, 36(140), July 1955.
13. SAKSENA, S.C., "Study of public enterprise in the state of Madhya Bharat during the last fifty years", *Journal of Vikram University*, 1(4), November 1957.
14. SHAH, M., "Role of the private and public sectors in economic development", *AICC Economic Review*, 9(21), 1 March 1958.
15. TATA, N. H., "The jealousies of public and private enterprise", *Capital* (Annual No.) 20 December 1956.
16. TRIPATHI, P. C., "Public enterprise in India", *Modern Review*, 99(5), May 1956.
17. UPPAL, J. S., "Some problems of the public sector in India", *Economic Affairs*, 3(7), July 1958, and 3(8) August 1958.
18. VAIDYA, M. J., "Role of private and public sector in a planned economy", *United Asia*, 10(1), February 1958.
19. WORKING. *First word. Working of state enterprises in India.* Calcutta, Employers' Association, 1951. 18p.

1.23 *Pakistan*

20. AYUB, M. "Pakistan Industrial Development Corporation", *Pakistan Quarterly*, 7(2), 1957.
21. AYUB, M., "PIDC (Pakistan Industrial Development Corporation) and the industrial development of West Pakistan", *Journal of Industry*, 1(1), March 1957.
22. AYUB, M. "Role of private and public enterprise in the Industrial development of Pakistan", *Economic Digest* (Pakistan) 1(11), November 1958. Also *Guide to Trade and Industry*, 1(8), August 1958.
23. "Five years of Pakistan Industrial Development Corporation", *Pakistan Trade*, 8(2), February 1957.
24. PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION : *Annual report and statement of accounts.* Karachi. PIDC House, 1957.
25. UQAILI, N.M., "Pakistan Industrial and Investment Corporation", *Enterprise*, 7(32-33), 14 August 1958.

1.24 *Philippines*

26. PHILIPPINES. COMMITTEE ON REORGANIZATION OF GOVERNMENT-OWNED OR CONTROLLED CORPORATIONS. 1950. *Report.* Manila, 1950. viii, 239p. Mimeo.

1.25 *United Kingdom*

27. CHESTER (D.N.) : *Nationalised industries : An analysis of the statutory provisions.* London, George Allen & Unwin Ltd., 1951. 93p.
28. DE NEUMAN (A. M.) : *Economic aspects of nationalization in Great Britain.* Cambridge, Students' Bookshop Ltd., 1952.
29. LEWIS (Ben W.) : *British planning and nationalization.* New York, Twentieth Century Fund, 1952. xi, 313p.
30. CLEGG (H. A.) & CHESTER (T. E.) : *Future of nationalization.* Oxford, Basil Blackwell, 1953. ix, 211p.
31. GOODMAN (Edward) : *Forms of public ownership and control.* London, Christophers, 1951. 142p.

1.26 *Yugoslavia*

32. CRNOBBNJA, B., "'Public' sector in Yugoslavia", *AICC Economic Review*, 9(17-19), 15 January 1958.

33. GERSKOVIC, L., "Relation between the State and Organs of social management in Yugoslavia", *Indian Quarterly*, 13(4), October-December 1957.

2. PROBLEMS OF PUBLIC ENTERPRISES

2.1 MANAGEMENT

2.12 *India*

34. AGRAWAL, N. C., "Management of public enterprises in India", *Indian Journal of Commerce*, 11(4), December 1958.

35. APPLEBY, P. H., *Re-examination of India's administration of government's industrial and commercial enterprises*. Delhi, Manager of Publications, 1956.

36. DALELA, V. N., "Management of public enterprises in India", *Indian Journal of Commerce*, 11(4), December 1958.

37. DAS, S. K., "Management of state enterpries in India", *Indian Journal of Commerce*, 11(4), December 1958.

38. DESAI, H. B., "On the management of public enterprises", *Indian Journal of Commerce*, 11(4), December 1958.

39. DUGVEKAR, T. G., "Management of nationalised industry", *Indian Journal of Political Science*, 18(3-4), July-December 1957.

40. GORWALA, A. D., *Report on the efficient conduct of state enterprises*. New Delhi, Planning Commission, Government of India, 1951. 35p.

41. JAIN, L. C., "Management of public enterprises in India", *Indian Journal of Commerce*, 11(4), December 1958.

42. MURDESHWAR, Anand K., *Administrative problems relating to nationalisation; with special reference to Indian state enterprises*. Bombay, Popular Book Depot, 1957. xv, 330p.

43. NARAYAN, B. K., "Management of public enterprises : The Hyderabad experience", *Indian Journal of Commerce*, 11(4), December 1958.

44. RAMASASTRI, J. V. S., "The managers of nationalised industries", *Indian Journal of Economics*, 35(137), 1954.

45. ROY, P. C., "Management of public enterprises in India", *Indian Journal of Commerce*, 11(4), December 1958.

46. SANTHANAM, K., "Management of public enterprises", *AICC Economic Review*, 9(21), 1 March 1958.

47. SHARMA, S. P., "Management of state enterprises", *Indian Journal of Commerce*, 11(4) , December 1958.

48. SHARMA, T. R., Chauhan, S.D.S., "The state industrial enterprise in India : Organization and management", *Agra University Journal of Research* (Letters), 5(1), January 1957.

49. SIKARIA, M. R., "Management of public enterprises in India", *Indian Journal of Commerce*, 11(4), December 1958.

2.2 ORGANISATION AND PUBLIC CONTROL

2.21 *India*

2.21.1 General

50. BHANDARI, K. C., "Public accountability of state enterprises", *Journal of Vikram University*, 2(4), November 1958.

51. CHANDA, A. K., "Public accountability of state undertakings : Company form of management is well within parliamentary control", *Commerce*, 92(2345), 11 February 1956.

52. DESHPANDE, R. A., "Public corporations : Their autonomy and parliamentary control", *Economic Weekly*, 10(13), 29 March 1958.

NOTES

53. GHOSH, S. "Autonomy of the public corporation", *Economic Weekly*, 10(14), 5 April 1958.
54. JAYARAMAN, T.K., "Public control of state enterprises", *Modern Review*, 104(2), August 1958.
55. MAJUMDAR, D. L., "Accountability in the corporate sector", *Indian Journal of Public Administration*, 4(1), January-March 1958.
56. MEHTA, B. "Public enterprises and parliamentary control", *Indian Journal of Public Administration*, 4(2), April-June 1958.
57. SAKSENA, S. C., "Forms of public enterprises working in India", *Journal of Vikram University*, 1(2), May 1957.
58. SHARMA, K. K., "Public corporation as a form of managing public enterprises in India", *Indian Journal of Commerce*, 11(4), December 1958.
59. SUBBARAMAIAH, S., "Organisation of public enterprises in relation to planning", Pap. Read 41st annual Conference, Indian Economic Association, 1958.

2.21.2 Specific Industries

2.21.21 Coal Industry

60. CHATURVEDI, O. N., "Managerial aspect in the National Coal Development Corporation", *Indian Journal of Commerce*, 11(4), December 1958.

2.21.22 Construction Industry

61. KRISHNA SWAMY, K. S., "Hindustan Housing Factory", *Indian Journal of Public Administration*, 4(2), April-June, 1958.

2.21.23 Transport & Communications Industry

62. MANTAN, T. R., "Nationalisation of telephone companies", *Indian Journal of Public Administration* 2(3), July-Sept. 1956.
63. PRASAD, J., "Nationalisation of road transport in Uttar Pradesh", *Indian Journal of Public Administration*, 2(4), October-Dec. 1956.
64. PRASADA, S., "Indian Airlines Corporation", *Indian Journal of Public Administration*, 2(1), January-March 1956.

2.22 *United Kingdom*

2.22.1 General

65. ACTON SOCIETY TRUST : *Studies in nationalised industry*, ed. by Gordon Rattray Taylor. 12 Pts. in 1. London.

1. Accountability to Parliament.
2. Powers of the Minister. 1952. 20p.
3. Problems of promotion policy. 1952. 19p.
4. Men on the Boards : A study of the composition of the Boards of nationalised industry. 1951. 21p.
5. Miner's pension. 1951. 22p.
6. Extent of centralisation : A discussion based on a case study in the coal industry. Pt. 1. 1951. 19p.
7. Extent of centralisation : A discussion based on a case study in the coal industry. Pt. II. 1951. p.21-43.
8. Future of the Unions. 1951. 31p.
9. Patterns of Organization. 1951. 31p.
10. Framework of joint consultation.

11. Worker's point of view : A discussion of 'Reporting back' based on a study in a coalfield. 1952. 31p.
12. Relations with the public. 1953. 38p.

2.22.2 Specific Industries

2.22.21 Coal Industry

66. BALDWIN (George B.) : *Beyond nationalization: The Labour problems of British coal.* Cambridge, Mass., Harvard University Press, 1955. xxii, 324p.
67. HAYNES (William Warren) : *Nationalization in practice: The British coal industry.* London, Bailey Bors & Swinfen Ltd., 1953. xviii, 413p.
68. NOTT-BOWER (Guy) & WALKERDINE (R.H.). *Eds. National Coal Board : The first ten years, a review of the first decade of the nationalised coal mining industry in Great Britain.* London, Colliery Guardian Company, 1957. 138p.
69. SAXENA (S. K.) : *Nationalization and industrial conflict : Example of British coal-mining.* The Hague, Martinus Nijhoff, 1955. viii, 185p.
70. SINCLAIR (John) : *Coal-mining economics : Organization and management.* London, Sir Isaac Pitman & Sons, 1957. vi, 337p.
71. TOWNSHEND-ROSE (H.) : *British coal industry.* London, George Allen & Unwin Ltd., 1951. 162p.

2.3 PERSONNEL MANAGEMENT

72. BHANDARI, K. C., "Management of public enterprises : Personnel", *Indian Journal of Commerce*, 11(4), December 1958.

2.4 PRICING POLICY

73. MISHRA, M. "Price policy of public enterprises in underdeveloped economies with special reference to India", *Indian Journal of Commerce*, 11(38), March 1958.
74. ROY, P. C., "Pricing policy under public enterprise", *Indian Journal of Commerce*, 10(4), December 1957.
75. SHARMA, K.K., "Price policy of public enterprises", *Indian Journal of Commerce*, 10(4), December 1957.
76. SHARMA, S. L., "Pricing policy of state undertaking", *Indian Journal of Commerce*, 11(38), March 1958.
77. VARSHNEY, R.L., "Pricing policy under public enterprises", *Indian Journal of Commerce*, 11(1), March 1958.

2.5 PRODUCTIVITY

78. ARDANT (Gabriel) : *Technique de l'Etat de la productivite du secteur public.* Paris, Presses Universitaires, de France, 1953. 184p.
79. HOULDSWORTH (H.) and others : *Efficiency in the nationalised industries.* London, Institute of Public Administration, 1952. ii, 65p.
80. "Promoting efficiency in state concerns", *Capital*, 138(3457), 2 May 1957.



SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

BASIC DISCUSSION PAPER
"MANAGEMENT OF PUBLIC INDUSTRIES"
BY
A. H. HANSON

NEW DELHI, INDIA
1-11 DECEMBER 1959

MANAGEMENT OF PUBLIC INDUSTRIES

By
A. H. HANSON

GOALS FOR MANAGEMENT

1. Statement of objectives, when divorced from particular contexts, are inevitably so vague that they can hardly serve as guides to action. However, to make a few contrasts between the public sector and the private sector in defining the purposes of management may help to elucidate some of the special problems with which public enterprise is confronted.

2. Formerly, it was common to distinguish between public and private enterprise by reference to the motivations of their respective managements. Both served the public by way of producing goods or services as economically and efficiently as possible, but whereas in public enterprise service was a direct and conscious purpose, in private enterprise it was a by-product of profit-making. In public enterprise, therefore, there could be no contradiction between social purposes and managerial objectives, but in private enterprise such a contradiction could easily arise, insofar as the maximisation of profits did not automatically give rise to the maximum public benefit, particularly if the enterprise was working in a field that was less than fully competitive.

3. It would be quite untrue to suggest that this contrast has entirely lost its validity, but today it has to be qualified in so many ways that it ceases to have much of its former clarity. The well-known "divorce between ownership and control" has made the motivation of private enterprise management considerably more complex, to say the least, than it used to be. The very conception of profit, when analysed, tends to become ambiguous. The pursuit of long-term profitability has very different economic effects and social implications from the mere quest for immediate rewards, and profitability itself, in the sense of material gains accruing to individuals, may well take second place to the expansion and consolidation of the concern, *i.e.*, to the pursuit of economic power. Furthermore, public service is by no means absent among the *direct* motivations of the managements of well-organised private enterprises; for the development of a social conscience among private business managers is a well-attested, if unevenly-distributed, phenomenon. On the other hand, a public enterprise, while in theory having no other motive than that of public service, may conspicuously fall short of this ideal, and develop into a kind of managerial "empire", in which officials, enjoying the security of tenure characteristic of the civil service, become apathetic about the purposes they are supposed to be pursuing, and even dictatorial in their attitudes towards the public. Finally, the very concept of public service is subject to a great variety of interpretations. No one has succeeded in attaching an agreed meaning to the well-known statutory injunction to British nationalised industries "to serve the public interest

in all respects", and it is inconceivable that this clause could be given any specific interpretation by a court of law.

4. If, then, we reject the distinction between "profit" and "service" as too inexact and ambiguous for purposes of analysis, what are we left with? Are there general principles, of any kind, that can serve as a guide to the behaviour of public enterprise managements? According to some, there should be no fundamental distinction between private and public. The principles of mangement are the same, whoever happens to own the capital, and the difference between the two kinds of enterprise lies solely in the bodies to which their respective managements are responsible. Both, to the extent that they are permitted to do so, have the duty of behaving in accordance with sound and well-established commercial principles.

5. In one sense, this has only to be stated for its falsity to be perceived. One of the most frequent reasons for establishing a public enterprise —particularly in an underdeveloped country—is that the government has decided that, for the sake of economic development, a project must be put in hand in spite of the fact that, at least in the short run, it is not commercially viable. That, of course, is one of the justifications—apart from any "ideologicial" ones that may be present—for including it in the public sector. The private investor is not "interested"; for there is no positive correlation between the commercial attractiveness of a particular investment and its potential contribution to the development of the country's economy. Indeed, in an underdeveloped country there may even be some degree of *negative* correlation, in so far as many of the more commercially-attractive investments are socially-useless ones. In any case, the state obviously needs to have regard to something more than narrow calculations of commercial viability when it undertakes investment in essential basic services, such as power, transport and irrigation. Nor can it always rely, even if it provides suitable incentives, exclusively on the commercially-oriented ambitions of the private entrepreneur and investor for the development of the superstructure of the economy. In this particular sense, therefore, it is untrue to say that a public enterprise is necessarily "just like any other commercial concern."

6. Fom the standpoint of the actual running of the individual enterprise, however, "sound commercial policy" has a very definite meaning. It almost goes without saying, for instance, that the management of a public enterprise, like that of any other enterprise, should endeavour to minimise costs of production, should strive to make the concern "pay its way", and should be constantly adapting production policy to the changing requirements of the market; and it is also arguable that, to achieve the optimum utilisation of the factors of production, the price of each unit should be related, as far as practicable, to its cost, so as to avoid the grosser forms of "cross-subsidisation". These are simply some of the more obvious elements of "sound commercial policy". Plenty of others will be very familiar to those experienced in commercial matters.

7. Such principles provide reasonable, if rather obvious, guides to managerial policy. If they are consistently disregarded, scarce resources will be underemployed or misapplied. But they are by no means absolutes, and have to be considered in relation to other *desiderata* which may be applicable to both public and private enterprise, but which are particularly applicable to concerns which have been deliberately established by the state as agencies of economic development.

8. Costs of production, for instance, may be minimised by methods which, although immediately economical for the enterprise concerned, are not at all economical for the country as a whole. High-standard "amenities" for workers, although costly to the enterprise, may be justified as a means of preserving industrial peace and of attracting and maintaining a stable labour force, as well as on social grounds. Expensive training and apprenticeship schemes, the benefit of which rarely accrues exclusively to the enterprise providing them, may have a vital role to play in the general

improvement of skills. Even the extremely dangerous use of public enterprises as "givers of employment", involving the recruitment or retention of an over-expanded labour force, may, in some circumstances, be temporarily justified as a means of avoiding the demoralising effects of unemployment, particularly in a country where social security schemes are non-existent or embryonic.

9. From the standpoint of economic development, it may be necessary to run the enterprise at a loss, even over a considerable period. Such losses have to be balanced against the actual or potential gains to the economy as a whole. It would be absurd, for instance, to close down or contract the operations of a fertilisers plant simply because the peasants were unable to purchase its products at a price that covered its costs of operation. It would be equally absurd to expect that, in all cases, the supply of electricity to a rural area or the operation of a railway line to "open up" an underdeveloped region could be conducted on a profit-making or "break-even" basis. This is not to say, of course, that a public enterprise ought, in all circumstances, to eschew profit. That would be equally absurd, particularly as it is of major importance, in some circumstances, for the public sector to be employed as a means of capital accumulation. It does mean, however, that ability to "meet outgoings from incomings" is not a criterion that can be universally applied. The needs of the economy as a whole, as conceived by the authorities responsible for the development programme, must take priority.

10. Even "adaptation to the requirements of the market" is not a principle of absolute validity. Admittedly, many public enterprises have failed dismally as a result of their studied neglect of consumer preferences. Some of the government factories in Ceylon might be quoted as apposite examples. But the "lumpy" nature of economic development frequently requires that an enterprise should adapt itself, not to existing demand, but to a future, planned demand, in a way that the ordinary profit-minded entrepreneur would regard as commercially hazardous—and rightly so. India's steel plants are a case in point. Even progressive foreign firms are reluctant to risk their capital in response to a promise of future demand, based upon planning targets, as the following story, brought back from India by Mr. Paul Bareau, illustrates :

> A well-known firm told me that they had been invited to be one of the four typewriter manufacturers who were going to set up plants in India; they sent their experts out there to study the techniques and marketing end of the project, and asked the obvious question : 'What is the demand for typewriters? Is it adequate to support no less than four separate establishments?' The answer was : 'Oh no, but according to our plan it will be by 1961'. The firm said : "We are not in the habit of doing business, risking large amounts of capital on that kind of basis. No thank you." (*International Affairs*, London, Vol. 33, No. 3, July, 1957, p.307).

I do not know, for lack of evidence, who was right in this particular case. But it is quite possible that both were right, from their respective points of view. For the individual firm and the government with planning responsibilities are bound to look at the question of "the market" from different angles.

11. The fourth guiding principle of commercial operation which we quoted, the adjustment of unit prices to unit costs, may also, in certain circumstances, have to be honoured in the breach rather than in the observance. On social grounds, or in the interests of long-term economic development, it may be desirable to overcharge one group of consumers and to undercharge another, thereby compelling the former to extend a subsidy to the latter. Admittedly, it is always better, if possible, to tie prices to costs and provide whatever subsidy may be considered necessary from government to funds; but this is not practicable in every case. Even in Great Britain, it is regarded by many—although not by all—as justifiable that the North of Scotland Hydro-Electricity Board should supply rural consumers at less than cost through charging urban consumers higher prices than would otherwise

be necessary. (See Select Committee on Nationalised Industries : *Report* of 29th October, 1957, pp. ix-xi; for a different view, see *Report of the Committee on Inquiry into the Electricity Supply Industry*, January, 1956, pp. 95-7). In underdeveloped areas, there may be a much stronger justification. One can make out a cogent case, for instance, for meeting at least some of the cost of the irrigation operations of a multi-purpose river-valley project from the profits on its sale of electrical energy. Such a case was made, crudely but nonetheless effectively, by a member of the Indian Lower House (Lok Sabha) in the 1957 Debate on the Ministry of Irrigation and Power's Estimates, viz.

"If we do not give water to the agriculturalists because they do not agree to the rate which the Damodar Valley Corporation wants and other river-valley authorities want or the State wants, ultimately we lose in food and we are put in difficulties regarding our finance internally and externally." (Second Series, Vol. IV, No. 14, col. 6254).

Once again, the application of a theoretically sound commercial principle has to be tempered by consideration of national economic interests.

12. Evidently, then, a public enterprise may be required, in the interest of planning for economic development, to behave in ways which, from the standpoint of the management, appear "uncommercial". This is likely to happen rather more frequently, perhaps, in a poorly-developed country than in a comparatively highly-developed one. The German Federal Republic can rely, at least for the time being, on the application by the managers of its public enterprises of "normal commercial criteria". It is by such methods that the "German economic miracle" has been accomplished. Even there, however, the view that public enterprises "ought not to be used as instruments of state economic policy" has "given rise to numerous criticisms". (See Gert von Eynern : *Le Controle des Entreprises Publiques par l'Etat dans la Republique Federale Allemande*, a paper presented to the Rome Congress of the International Political Science Association, 1958). In the less developed areas of the world, such abstention is not likely to produce "miracles" of the kind required.

13. It might be argued, however, that the "non-commercial" considerations which we have exemplified are matters for the government, not for management, whose duty is to behave in accordance with strict commercial principles within a frame of reference provided by legislation and by directives from higher authority. Such a point of view has been cogently presented by the "Herbert" Report on the British Electricity Supply Industry, which holds that the industry ought to operate as a "strictly commercial undertaking" except to the extent that the Minister choses to give it "precise instructions if and when it is required to act in some way different from what would be dictated by purely economic considerations". (*Report*, pp. 136-7). This view, however, has not been accepted by the British Government, which prefers that enterprise policy should be worked out by "continuous consultation" between the Ministers and managements concerned. We would suggest that the more important considerations of "national interest", as distinct from "strictly commercial" considerations, become, the more desirable is it that management itself should be aware of the role that the enterprise is expected to play and convinced of the validity of the objectives that it is enjoined to pursue. Such objectives cannot be formulated *in vacuo*, at a high political level, but only in co-operation with the enterprise itself. For if there is persistent tension between managerial policy and "higher" policy, the performance of the enterprise is likely to be adversely affected. Considerations such as those we have outlined, therefore, need to be present in the minds of the managers themselves, if the enterprise is to contribute its quota, most effectively, to the achievement of national plans.

14. Of course, it nevertheless remains true that within the frame of reference that they themselves have participated in constructing, managers must be constantly striving to minimise costs and maximise revenue on the basis of a product or service which meets certain quality specifications.

It is perhaps in respect of the "quality" factor that some of the most difficult problems may arise, particularly when there is an alternative between (*i*) a comparatively large quantity of comparatively low quality and therefore low-priced products, and (*ii*) a comparatively small quantity of comparatively high-quality and therefore high-priced products. Here management may possess a considerable latitude in respect of the fulfilment of its general objectives, and here, too, "commercial" considerations (*i.e.*. minimisation of total costs and maximisation of total revenues) may not be the decisive ones. It will be interesting to hear how managers confronted with this type of problem have coped with it, and to what extent the planning authorities have found it necessary to interfere with the freedom of enterprises in this respect, and with what results.

15. Final emphasis must be placed on *clarity* of objectives. In collaboration with those concerned, it is necessary to break down the overall national plan into a series of goals, or terms of reference, for each individual industry and plant, so that managers will clearly see the object of the exercise and have in front of them a series of well-defined targets. It is equally necessary that these should be *understood*, in such terms as the various categories of personnel are capable of grasping, by everyone from the General Manager downwards. In the absence of clearly-formulated goals, the organisation lives a hand-to-mouth existence, changing its policies in response to all kinds to stray influences, both internal and external. Co-ordination of effort also suffers, and in extreme cases may become quite impossible when no one is quite certain what the object of the exercise is. In such circumstances, "spontaneous", contradictory and predominantly objectives soon begin to predominate among the various people concerned—the maximum individual reward for the minimum individual effort, the building of a sectional "empire" along the lines of "Parkinson's Law", or simply the enjoyment of a quiet and undisturbed working (and preferably not-too-hard-working) life. Loyalty to an organisation which does not know where it is going is impossible. Moreover, clarity of objectives is a *sine qua non* for the proper delegation of responsibility. Without it, the ever-present tendency towards over-centralisation is immeasurably strengthened, as those in the lower ranks of the managerial hierarchy are provided with no criteria for independent decision-taking. Every question becomes "difficult", and consequently has to be referred to someone higher up.

16. However clearly-defined the goals may be, therefore, and however realistic and attainable, they will be of comparatively little use if they are simply embodied in a document which the top manager keeps in his drawer to consult occasionally. Only if understanding of them is diffused among personnel at all levels will the twin *desiderata* of proper co-ordination and adequate delegation become possible. For goals do not become effective until they are embodied in people's consciousnesses and enter into their motives.

MEASUREMENT OF MANAGEMENT

17. In private industry, profitability provides a rough-and-ready measure of managerial efficiency, particularly if the concern is operating in a competitive field. At least, shareholders who are satisfied with the dividend declared are likely to be satisfied with the management that produces it. Even in these conditions, however, this unit of measurement is an inherently unsatisfactory one. A rise in profits is not necessarily an indication of improved efficiency, nor a fall in profits of diminished efficiency. Moreover, a given level of profit, even though satisfactory to the shareholders, might have been further raised by the elimination of managerial defects of which they were unaware. Nor does a comparison of the profitability of different enterprises operating in the same field necessarily reflect differences in managerial efficiency, for it may be extremely difficult, and sometimes impossible, to isolate the effect of the latter on the overall result.

18. It is obvious, however, that in a privately-owned enterprise, run for profit and keenly competitive, the *incentive* to raise the level of managerial efficiency is continuous. This incentive is weakened to the extent that the enterprise becomes protected from the chill winds of competition, whether by accident or by design. It may become weaker still in a *public* enterprise which enjoys such protection. As, therefore, a great many public enterprises are in this situation, more or less, the provision of alternative incentives becomes a great importance. To provide them, it is helpful that some reasonably reliable and objective method of measuring managerial efficiency should be devised.

19. In the first place, one must attempt to distinguish between the various kinds of factors affecting the enterprise's performance. These may be divided into three classes, namely (*i*) "objective" socio-economic conditions, *e.g.*, the "state of trade", both internal and external, the condition of the labour market, the availability of various types of skill, the general social and ideological environment, etc.; (*ii*) decisions taken externally to the enterprise, *e.g.*, the law which prescribes its constitution and governs its relationship with higher authority, the laws that impose on it obligations in respect of labour relations, employee welfare and personnel practices generally, the directives that it receives from the responsible minister, and the general economic policies which determine the scope of its operations; (*iii*) the internal organisation and procedures of the enterprise itself. Unless the effect of the third of these can be isolated, to some degree, from that of the other two, the measurement of the specific contribution of managerial behaviour to the overall result is not possible.

20. Such isolation is easiest when the enterprise is working in competitive conditions, is comparatively exempt from "political" interference, and is subject to legal controls not substantially different from those that govern its competitors, with whom it shares the same socio-economic environment.

21. A good example of such an enterprise is the Renault Automobile Factory in Paris. Even without any attempt at precise measurement, it is reasonable to say that managerial efficiency in the *Regie Renault* must be at least as high as in its private enterprise competitors, in so far as, without enjoying any special privileges, it has succeeded in putting on the market a series of products that are highly competitive, both in price and in quality. In fact, it is well known that the *Regie Renault* has acted as the leader and pace-setter of the French—and to some extent of the European—automobile industry. It is also fairly well known that this has been due, in considerable measure, to the personal dynamism of its first General Manager, M. Pierre Lefaucheux, and the administrative skill of his successor, M. Pierre Dreyfus. (See Harold A. Fletcher : *The Regie Renault*, in Public Policy, A Year-book of the Graduate School of Public Administration, Harvard University, 1958, pp.201-3.)

22. In the case of a public enterprise where elimination of the "other factors" is less easy, however, one cannot be so confident in attributing a particular result to managerial virtue or vice. Even the Renault case illustrates the difficulty of discovering the influence of organisation and procedures as such. For so much depends on the *personal* qualities of top management. A genius may produce good results from a rather inferior managerial set-up, simply by communicating his dynamism "down the line" and using his authority to short-circuit rules and conventions that get in his way. But results achieved in this manner cannot outlast the tenure of office of the person responsible for them, and provide no index of the efficiency of the managerial *system*, which is likely to reveal its defects when a merely normally-able manager succeeds the genius in the top-level position.

23. Such complexities merely offer a challenge to those concerned with the measurement of managerial efficiency, compelling them to eschew short cuts and to approach their work in a logical and systematic manner. The first step, clearly, is to compile figures which measure, not the

performance of management specifically, but that of the enterprise generally. It may then be possible, by a process of step-by-step elimination of the extraneous factors (necessarily, however, an inexact and approximate action) to form an estimate of the contribution of management to the overall result.

24. The figures initially required are those that measure output in relation to the input of factors of production. Such figures, it should be remembered, have no absolute value. They are for purposes of comparison, which may be of two kinds, viz. (*i*) comparison over a period of time (*i.e.*, Is the input-output ratio rising or falling?); (*ii*) comparison with other, similar enterprises (*i.e.*, Has enterprise A a higher or a lower input-output ratio than enterprise B?).

25. The most obvious figure for the measurement of overall performance is cost per unit of production. On this, certain *prima facie* conclusions may perhaps be based; but one would be very foolish to place exclusive reliance on it, for two reasons, (*i*) that the discovery of a suitable unit, or selection between units apparently having equally good claims, is often difficult; (*ii*) that unit cost is the product of a whole complex of influences, both internal and external to the enterprise, which may not be easy to disentangle. Figures providing a more detailed "breakdown" of the input-output ratio, together with a variety of operating statistics, are therefore required.

26. All well-organised and cost-conscious enterprises realise the importance of compiling such information, and attempt to use it, not merely for measuring their performance as against that of other enterprises (where possible) or over a period of time, but for purposes of self-justification (*i.e.* public relations). For instance, the British electricity supply industry, in its annual reports, presents figures to show the following:

Average works cost per unit of electricity generated.
Heat consumption per unit generated.
Percentage index of thermal efficiency.
Average load per KW of maximum output capacity.
Percentage increase in coal consumption, in comparison with percentage increase in electricity generated.
Cost per unit for repairs and maintenance.
Cost per unit of operation for salaries and wages.

British Railways, in addition to calculating working expenses per train mile, presents what it has described as "operating efficiency statistics... in their most advanced form". These include the following figures :

Average wagon load at starting point.
Empty load-miles per freight engine hours.
Ratio of wagon miles per total engine hours.
Index of net ton-miles per engine hour.
Coal consumption per engine mile.

Statistics of this kind, compiled over a period of years and carefully interpreted, can provide a sound basis for assessing the performance of the enterprise. From them, one can learn, not merely whether performance as a whole is improving or deteriorating, but also in which specific phases of operations improvement or deterioration is evident.

27. As a means to improved management, by indicating the points at which extra effort or better organisation may be necessary, such information is invaluable. But for the *measurement* of managerial performance it provides only the raw material. Rather than attempting to describe, in general terms, how such raw material may be "processed", it will be better to give an actual example. This is from the latest Report, on the Air Corporations, from the Select Committee on Nationalised Industries (Reports and Accounts) of the British House of Commons, published on 14th May, 1959. This Committee, in attempting to assess the performance of the managements of the two Corporations, British European Airways

and British Overseas Airways, had the advantage of comprehensive operating statistics providing both comparisons over time and comparisons with the British corporations' leading foreign competitors.

28. What the Committee did was to concentrate attention on those figures which suggested, *prima facie*, that the corporation concerned was considerably less efficient in certain respects than its competitors. It carefully enquired whether there were any factors, outside the control of the corporation, to account for the discrepancy. If it found that there were none, or that those discoverable were insufficient to account for a comparatively poor performance, it said to the corporation, in effect, "There is apparently no adequate reason, apart from your own inefficiency, for your failure in this respect, and therefore it is high time that you introduced more efficient managerial practices".

29. In one of these statistical comparisons, B.O.A.C.'s performance appeared strikingly inferior to that of the American "long haul" airlines, Pan-American and Trans-World-Airways. Whereas these two lines had a c.t.m. per employee (the quotient of the airline's capacity and the number of its employees) of 37,700 and 44,100 respectively, B.O.A.C. had one of16,400. The Committee recognised that there were certain "contributory reasons" for this contrast, largely outside B.O.A.C.'s control, *e.g.* that the Corporation did more things for itself, and fewer by outside contract, than its competitors, that it had been undergoing a period of re-equipment, and that its more widespread operations compelled it to employ larger flight crews. But, when all these things had been duly allowed for, further justification for the very large pay-roll, particularly in the Corporation's workshops, appeared to be necessary. Several explanations were offered, viz. the difficulties in obtaining trade union agreement for new staffing arrangements, and the delay in undertaking the "major investigation" that was necessary, owing first to the preoccupation of the Chief Engineer with the "Britannia's" icing troubles and secondly to the illness of the Managing Director. Rejecting these as inadequate, the Committee went on to consider whether any blame could be attributed to the standards of airworthiness and safety to which the Air Registration Board compelled the corporation to conform. Having satisfied itself that this was not so, it concluded that "the responsibility for what happened in the past must reside inside the Corporation", *i.e.*, that it was the responsibility of management.

30. This investigation, starting with a statistical comparison and proceeding by way of a rigorous examination of the evidence to a conclusion very difficult to challenge, is a model of its kind, in spite of the fact that it was not conducted by experts either in industrial management in general or of civil aviation in particular.

31. All countries are attempting some such external and objective assessment of managerial performance. In some cases this amounts to no more than the production of "comments" on annual Reports and Accounts by the statutory auditing body, which may or may not be well equipped to interpret commercial statistics and understand managerial problems. Such comments are often transmitted to parliamentary committees, which, after considering them together with the Reports and Accounts to which they refer, attempt to provide managements with suggestions for improvements. In other countries, specialised professional bodies have been established to keep the efficiency of public enterprises under more or less continuous review. In Turkey, for instance, this task is entrusted to a body known as the Prime Minister's High Control Board. In India, a decision has recently been taken to establish standing committees, predominantly ministerial in composition, to organise and control "teams" which will carry out investigations of public enterprises, including inspections "in the field". The most highly-developed of such efficiency-auditing bodies is the French Commission de Verification, which, by all accounts, has provided a valuable service.

32. That the importance of measuring managerial performance has been so widely realised is encouraging. Nevertheless, it must be frankly

said that there are limitations to what the *less* developed countries can accomplish, or ought to try to accomplish, in this respect. The two limiting factors are simply (*i*) paucity (and sometimes unreliability) of statistical information of the kind required, and (*ii*) scarcity of personnel with the requisite qualifications to interpret such information and to conduct the "follow-up" investigations. The first limitation, although by no means easy to remove, is probably less serious than the second. To achieve success, an efficiency-investigating unit needs to be staffed with genuine experts—adequately trained management engineers working under the supervision of people with wide industrial, commercial, financial and administrative experience. The possessors of such qualifications are extremely scarce in the less developed parts of the world, and to use those that exist in investigatory capacities is, in most cases, a waste of talent. People capable of checking the efficiency of enterprises ought not to be doing so; they ought to be running them. As I have written elsewhere:

> "An *effectively* staffed organisation for checking the efficiency of public enterprises is a 'western' luxury which an underdeveloped country simply cannot afford not because it costs too much money, but because it represents a misapplication of scarce and valuable manpower." (*Public Enterprise and Economic Development*, p. 387).

33. Does this mean, then, that the attempt to organise external efficiency checks should, for the time being, be abandoned? I do not think so. It means, rather, that such checks will have to be intermittent rather than continuous, and on a comparatively modest scale. The occasional appointment of a Committee to investigate the performance of a public enterprise and to make recommendations does not place an undue strain on manpower and may yield useful results. Statutory auditors can sometimes put their fingers on weak spots in management, and so can parliamentary committees. According to an American observer, the Indian Estimates Committee's inquiries into the Damodar and Hirakud projects have been "surprisingly constructive" (Henry Hart : *New India's Rivers*, Calcutta, 1957, p. 163). Valuable as this kind of investigation may be, however, it is something distinct from the scientific measurement of management.

34. In my view, major reliance needs to be placed, in developed and underdeveloped countries alike, on managerial *self*-criticism. Efficiency checks, like charity, must begin at home. The difficulty, of course, is that busy and harassed managers rarely have the opportunity to stand back from their desks in order to look critically at what they are doing. They therefore need assistance. In other words, the apparatus of self-criticism must be "built into" the enterprise. Somehow, machinery for the identification of weaknesses in organisation and procedure must be provided as an aid to management. But how?

35. To attempt to offer a formula suitable for all enterprises would be quite futile. One can safely say, however, that whereas all officials have a duty to be vigilant about the spotting of managerial weaknesses, some have better opportunities for the performance of that duty than others. In particular, the officer concerned with personnel ("establishments", in British parlance) usually becomes aware more quickly than anyone else of inefficiencies which reflect themselves in swollen numbers of employees or excessive turnover in the labour force or failure to put the right people in the right jobs or disputes about job-descriptions—that is, unless, as too often happens, he is a comparatively low-grade official solely concerned with compiling personnel records. It is no accident that, in the British Civil Service, the senior officer responsible for Establishments is usually also responsible for Organisation and Methods. Such an officer does not necessarily need special qualifications, for any comparatively high-grade person, familiar with the organisation, possessing an independent and critical mind and *enjoying the encouragement of top management to use it*, can recognise at least the more obvious weaknesses that require correction. Attempts to remedy a weakness, however, must be preceded by some kind of systematic investigation,

so that its cause may be accurately indentified and possible methods of overcoming it clearly formulated. Such an investigation may be carried out, either by a firm of consultants, brought into the enterprise for the purpose, or by an officer, or team of officers, from the enterprise itself. In a large organisation, it generally proves economical, if suitable personnel is available, to have a small but permanent unit both to identify the weaknesses and to conduct the investigations. Under the name of "O and M", this is now the practice in the major British nationalised industries. How far it can be imitated depends on the availability of people with the requisite qualities to staff such a unit. Hence one can hardly make a recommendation on this subject which stands much chance of being generally acceptable.

36. One final point, of great importance, needs to be made. As we have seen, criticism of management is partly an internal matter and partly one for whatever supervisory organs the state may have established. But no organ of measurement and criticism, whether internal or external, can *make* managerial policy, or ought to try to do so. Its job is simply to diagnose ills and prescribe possible remedies. Management alone has the responsibility of deciding whether and how to *act* on its recommendations. For the essence of management is responsibility for the internal organisation of the enterprise, and it cannot exercise that responsibility without the necessary *authority*. To *compel* an inefficient management to become efficient is impossible, for in attempting to do so one inevitably undermines that authority which is one of the preconditions of efficiency. If management persistently refuses to accept well-conceived recommendations for its own improvement, the remedy is not to convert them into orders. It is to get rid of the existing management and replace it by a better one—always assuming that a better can be found.

PROBLEMS OF MANAGEMENT

A. PROBLEMS RESULTING FROM FACTORS EXTERNAL TO THE ENTERPRISE

37. The division of the problems of management into internal and external is clearly a rather arbitrary one, and is being used for convenience of presentation only. In the present section we shall be dealing primarily with the relations between the enterprise and other organisations and groups (*e.g.*, the state, the consumers, and other enterprises, both public and private), and with the effect of certain environmental factors which condition its activities. These relations and influences, however, obviously have their effect on the internal affairs of the enterprise which are the subject of the next section.

Plant location, size and layout

38. If the management has been designated before the enterprise is brought into existence, it will probably be consulted about location, size and layout. Where possible, this is always desirable, as those who are to be responsible for the running of the enterprise are likely to have strong views about these subjects. For subsequent managers, however, they are more or less given data. This applies, perhaps, more to location and size than to layout.

39. The principles of optimum economic location (sufficiently well-known not to require repetition) are frequently violated, sometimes as a result of ignorance, but more usually to allow for social, political and even military factors. It may be considered desirable on social grounds, for instance, to limit the expansion of existing urban centres, or to diversify the economies of particularly backward* or to relieve unusually heavy local or

* The conflict between economic and social considerations, in this respect, is well illustrated by some of the controversies about the role of the Indian Industrial Finance Corporation. It was criticised by a parliamentary Committee of Enquiry for its lack of attention to backward areas. It retorted to the effect that it was supposed to work on sound commercial principles and not function as a kind of "social service" agency.

regional unemployment (in circumstances where there are severe limitations on the mobility of labour). Politically, the government may decide that wisdom requires that its industrial location policy should respond, to some degree, to the demands of a particular region, conscious of its separate identity and perhaps displaying certain "separatist" tendencies, for more attention from the central planning authorities. This factor has not been without influence in determining the priorities given to alternative river-valley schemes by the Indian Government. Military considerations may dictate the location of installations important for national defence in areas which cannot easily be attacked or overrun by a potential enemy. The Central Asiatic location of much Soviet industry was partly determined thus (although social and indeed strictly economic factors were not without importance); and it was military persuasion that caused the Turkish Government to put its Iron and Steel Works in an economically absurd geographical place. Modern techniques of warfare, however, have made such considerations less vital.

40. Size is obviously of very great importance, from the standpoint of management. In some cases—although comparatively few ones—it is fairly rigidly determined by technological considerations. Usually, there is plenty of room for choice. Often, a plant can be started on a comparatively small scale and then gradually expanded by the addition of new units as demand for its products develops and as management acquires the capacity to cope with the problems of large-scale production. There is no readily-definable optimum size for any enterprise, and the economic optimum is not necessarily the managerial one. Given adequate decentralisation of the decision-taking process, so that no manager has an excessive span of control, and proper application of line-and-staff principles, size *may* be increased almost indefinitely. But, strictly economic considerations apart, the disadvantage of a big organisation is that it complicates the problems of control and coordination. One therefore has to consider whether one has available a sufficient number of managers, adequately qualified and experienced, to run smoothly and successfully an enterprise of the size contemplated. Such considerations are all too often neglected, particularly in underdeveloped countries which are anxious, for prestige reasons, to "think big". Sometimes it may be advisable, and possible, to start with a comparatively small-scale "pilot project", through which an inexperienced management may learn from its not-too-expensive mistakes. The danger here, of which many examples might be given, is over-anxiety to embark on full-scale production before the necessary lessons have been thoroughly learnt.

41. Layout is primarily a technical matter on which the present writer is not qualified to pontificate. There are, however, one or two human considerations which it may be worth while to underline, as the expert may easily forget them, in his enthusiasm for introducing the "best" practices from the more developed countries. Much depends on the kinds of skill available, and on the psychology of the labour force. As the Report of the Seminar held in Rangoon in 1954, states :

> "No hard and fast rules are desirable for the pattern of functional subdivision within an organisation. Although governed largely by logic, functional differences, space, machinery, or other mechanistic considerations, the major breakdowns in work must also be influenced by the skill, training, and versatility of the employees and of the key supervisory personnel available. It is very doubtful whether the high degree of specialisation found in some highly developed industrial and governmental units should be duplicated elsewhere. Division of work into narrow segments creates too much separatism, hinders co-operative teamwork, and discourages the liberal shifting of personnel to meet changing workloads, thereby hampering the training and broadening of the experience needed to build up the full potentialities of the working groups. The smaller an organisation, the greater the dangers of overspecialisation". (*Some Problems in the Organisation and Administration of Public Enterprises in the Industrial Field*, United Nations, New York, 1954, p.48)

The work of the layout expert can obviously make the solution of these problems easier or more difficult.

Availability of Resources

42. One ought to be able to assume that, in planning the establishment of a public enterprise, the government has ensured that it shall be supplied, steadily and adequately, with the various materials and services that it needs. This is one of the most elementary requirements of balanced development. Unfortunately, it is not invariably met. Elsewhere (see *Public Enterprise in Nigeria: II. Development Corporations*, in *Public Administration*, London, Vol. XXXVII, Spring, 1959.) I have given examples of public enterprises that have been started before their supplies of basic raw materials were properly secured. In one extreme case, a plantation failed because not even adequate *water* supplies had been laid on. Power and transport are also likely to become bottlenecks, in the absence of proper preliminary planning. In many countries there is a tendency to allow the development of manufacturing enterprise to outstrip the capacity of the power and transport industries to provide for its needs. The result is not only wasted resources but lowered morale.

43. These are matters, it may be said, for the government rather than for enterprise management; but this is not entirely true. Management, in planning production policy, must have regard to current and potential availabilities, and must at least ensure that the organisations responsible for supplying it with goods and services are aware of its needs. All too often it happens that managers, taking a narrow or purely bureaucratic view of their responsibilities, rely passively on the readiness or capacity of outside organisations to make the necessary responses.

44. Human availabilities may also be grievously miscalculated, or even not seriously calculated at all. There is a tendency to starve the essential "personnel-forming" services. Education and training can always wait; steel mills and hydro-electric stations are "urgent". Faced with the resultant personnel bottleneck, governments are often compelled to rethink their allocation of capital resources among what Professor Schultz calls the three "basic variables" : the quantity of reproducible goods, the quality of people as productive agents, and the level of the productive arts, to make good the deficiences arising from their former comparative neglect of the last two. From the standpoint of the individual enterprise, the basic personnel problem is the adaptation to the requirements of modern-type production of people who are insufficiently skilled and psychologically unadjusted. Slackness about timekeeping, reluctance to work at a steady pace, high rates of absenteeism and failure to take care of tools are only some of the more obvious problems that confront management in this field. It is useless to wish that things were different, or to imagine that adaptation can be left to the healing hand of time. The kind of labour available is a datum to which the productive processes, as far as possible, have to be adjusted, for the task of changing people's attitudes and developing their capacities is a long and slow one. And what applies to labour also, *mutatis mutandis*, applies to management itself, with the result that the enterprise may easily find itself involved in a vicious circle. Just as productive processes must be adjusted to the characteristics of the labour force, so must managerial organisation be adjusted to those of the enterprise's officers. In both, maximum *simplification* is the watchward. At all levels, the responsibility of the individual must be neither too wide nor too complicated.

Factors arising from the Structure of the Public Sector and its Relations with Higher Governmental Authorities

45. In analyses of public enterprise, much stress has been laid on the legal status of the undertaking, and on the provisions in its constituting statute and in other laws which prescribe its relationships with the governmental authorities, *i.e.*, the responsible minister, the Cabinet or President,

the legislature, and such specialised "control" organisations as may have been established. Much ink has been spilt in attempting to answer the question of what is the right balance between public accountability and the "autonomy" necessary for business efficiency. There is no point in going over this old ground. One or two considerations, however, may perhaps be usefully underlined.

46. There is now abundant evidence to show that, whatever degree of autonomy the management of an enterprise ought to possess, it cannot be guaranteed simply by legal prescription. Whether it is organised as a government department or as a public corporation or as a joint stock company with total or majority state participation, the measure of freedom which an enterprise actually enjoys and the kinds of control to which it finds itself subject proceed from the development of certain conventions and understandings which grow up, so to speak, in the interstices of the law. For if an enterprise is (*i*) dependent, directly on indirectly, on the government for its capital finance, (*ii*) subject to directions in matters of policy from the minister or cabinet and (*iii*) governed by personnel appointed by and dismissable by the central authorities, its autonomy is just as wide as politicians are prepred to allow it or as it is able to persuade them to grant.

47. This does not mean, however, that the law is unimportant, particularly in countries where respect for law is well-established. For the law, while unable to offer any guarantees against "political interference", can do at least three important things:

(*i*) By exempting the enterprise from the rules relating to finance and personnel applicable to ordinary government departments, it can assist the enterprise to operate as a rationally-organised commercial concern;

(*ii*) By limiting the number of managerial decisions that require to be submitted for approval to higher authority, it can ensure that such ministerial intervention as occurs, outside these matters, is deliberate and not merely automatic, and thereby encourage the management to accept responsibility and the minister to exercise self-restraint;

(*iii*) By indicating, in general terms, the type of relationship between the enterprise and higher authorities that is considered desirable, it can promote the growth of appropriate conventions in this field.

48. Of all the enterprise's relationships with the governement, the *financial* one is of key importance. In most cases, the government is the source of the enterprise's capital, and therefore has to decide, in consultation with the management, how much it shall receive, when, and upon what terms. In the last respect, practices vary very widely from country to country. Sometimes an enterprise is endowed with an outright and non-repayable grant, in which case any profit that it makes, after meeting its various commitments, or a proportion of such profit, is paid into the Treasury. This method is not substantially different from the provision of "equity" capital, which entitles the government to receive whatever dividend the management, with government approval, is able to declare. Grants and equity investments may be combined with the making of loans, or alternatively loan-finance may be employed exclusively. Interest-rates and terms of repayment of loans need careful working out, particularly if it is expected that the financial condition of the enterprise is likely to be shaky during the period of its early growth. Frequently the government grants a moratorium on interest-payments and repayments, or it may even completely exempt the enterprise from such financial commitments for a period of years, without any provision for proportionately higher payments subsequently, in which case a portion of the loan is converted into a grant. Subsidies to cover losses, or permission to capitalise losses, may also be given. Within the scope of a short and general paper, such as this, it is impossible to

discuss the advantages and disadvantages of the various methods of capital-financing, from the standpoint of management, but there are several points of basic importance that ought to be made. (*i*) Most new enterprises, if loan-financed, will need some kind of relief in respect of their capital commitments during their earlier years. (*ii*) On the other hand, "easy money" (and, *a fortiori*, readily-given subsidies to cover losses) can have an extremely demoralising effect. (*iii*) The financing of enterprise via grants or equity capital can have deleterious results *if*, as a result, the rewards of efficiency in the form of annual surpluses, bring no benefit to the enterprise, being entirely "mopped up" by the Treasury. (*iv*) At the same time to permit an enterprise to dispose of its profits with entire freedom is incompatible with sound economic planning. Clearly, there are a numbrer of contradictory *desiderata* to be considered when deciding on the best method of financing an enterprise. It is unfortunately necessary to add, in view of the practices in which some countries still indulge, that probably the very *worst* method of providing finance is to allocate to the enterprise the product of an "earmarked" tax.

49. A government which provides money is obviously bound to be concerned with the ways in which it is spent. At the very least, long-term development plans and proposals for major capital expenditure will require its approval. In some cases, the government may insist on "vetting" the enterprise's annual budget (and may even be required by the law to do so). If the enterprise budget is "annexed" to the government's own budget, it may attract a good deal of parliamentary attention, with the result that there is something in the nature of a political crisis in the enterprise's financial affairs every year. This does not mean that annual governmental approval for proposed expenditures is necessarily to be condemned; for such an occasion may be used as a suitable "control point". (Compare British with American practice in this respect.) What is always deleterious is that the enterprise would be required to present highly-detailed estimates, and should be rigidly tied down to the resultant appropriations. Such inflexibility makes good, commercial-type management impossible. It is also harmful if annual budgeting compels the enterprise to think exclusively in "year-to-year" terms. If it is to work efficiently as a commercial concern it will need to plan certain types of outlay over a much longer period, and it needs the firmest guarantee practicable that its long-term commitments, once approved, will be honoured by the government, to the extent that the latter is responsible for finding the funds. Perhaps it is hardly necessary to add that any kind of "pre-auditing", such as may apply to the expenditures of government departments, is quite out of place for a commercial concern.

50. It also almost goes without saying that accounting must be of the commercial type, and that whatever auditing arrangements may be established (whether through a Court of Accounts, an Auditor-General, a specially-appointed public body, or a firm of ministerially-appointed or ministerially-approved private auditors) should follow the best commercial practices and *not* the procedures applicable to the audit of ordinary departmental expenditures. In general, all types of financial control should be specifically adapted to the needs of a management which is required to exercise initiative and display flexibility. Attempts to "modify" normal departmental procedures are almost invariably unsuccessful, as the Ceylonese experience clearly illustrates (See *Report of the Commission on Government Commercial Undertakings*, Sessional Paper XIX—1953, Government Press, Colombo.)

Personnel Management

51. This is another subject on which the relations between government and enterprise may be of the utmost importance and delicacy. Students of public enterprise have often expressed the opinion that management should have complete freedom to hire and fire, promote and demote, and establish grades and pay-scales; and in some countries their autonomy in these respects is indeed very wide. In Britain, for instance, the Minister's statutory authority is limited to the approval of training programmes and employee

welfare arrangements, and the legal obligations on the enterprise are confined to the establishment of machinery for collective bargaining and joint consultation. Admittedly, it is possible that the British minister may exercise some "informal" authority in personnel matters, but there is little evidence that this actually occurs. Almost at the opposite extreme—if one confines the comparison to Commonwealth countries—is Australia, where "the statutes creating the post-war corporations...contain a number of detailed provisions about staffing matters and display an increasing tendency to bring the methods of recruitment and conditions of employment in the corporations more into line with those applying in the ordinary public service". In some important cases, personnel regulations are subject to the approval of the Public Service Board, and appointments, transfers and promotions of officers earning more than a prescribed salary are subject to ministerial approval. [See T.H. Kewley : *Commonwealth Enterprises*, in Hanson (ed); *Public Enterprise*, I.I.A.S., Brussels, 1955, pp.471-81.] The tendency to "assimilate" employment conditions in public enterprises to those in the ordinary government service exemplified perhaps most clearly by the U.S.A.'s "Ramspeck" Act of 1940, is a very widespread one and even where it is non-existent or weak, the demand that all public enterprises should be subject to certain common standards, enforced by external authority, is strong. The reasons are to be found in (*i*) the prestige and security enjoyed by the civil service, in which public enterprise employees are anxious to share; (*ii*) the view that wide dissimilarities of conditions in different sectors of government employment are "unfair" and difficult to justify; (*iii*) the desire to limit competition for scarce personnel as between the civil service and the enterprises, and among the enterprises themselves; and (*iv*) fear of corruption and nepotism in personnel practices if the enterprises are "left to themselves". To the extent that such considerations influence public opinion and government policy, management may find itself severely restricted in its efforts to provide the enterprise with a system of personnel management well adapted to its specific needs. In this respect, as in all matters concerning public enterprise, an attempt has to be made to find the best balance between autonomy and control. A possible method is to establish a special "personnel commission" for public enterprises, to which each enterprise has to submit for approval its own personnel regulations. If such a commission, consisting predominantly of persons with industrial and commercial experience, uses its powers wisely, the resultant compromise between the public interest and the interests of the enterprise can work out very satisfactorily. Another line of advance, of considerable interest although not yet of proved value, is the formation of a national "Industrial Management Service", on the Indian pattern.

52. Of controls generally, it may be safely said that, if they are to be of maximum utility from the government's point of view no less than from the management's, they need to be of the broad "policy" kind and to be concentrated on a comparatively few, well-defined "key points". Over-detailed controls inevitably defeat their own objects. Not only do they inhibit the development among managers of a readiness to accept responsibility and exercise initiative; they distract the minister's attention from the general policy responsibilities that are rightly his, by cluttering up his desk with all kinds of matters that ought to have been decided, quickly and finally, at the enterprise level. The result is a slow-moving, bureaucratic set-up, so frustrating to able managers that they sedulously avoid the public service and seek their fortunes in the private sector. Public enterprise therefore recruits only the second- and third-best managerial personnel, and hence the minister, having little confidence in its abilities, attempts to ensure that it makes no serious mistakes by intensifying controls and taking more and more decisions himself. Once this vicious circle has been created, to break it may be an extremely difficult operation.

53. The legislature sometimes makes the situation worse by insisting on over-detailed ministerial responsibility. That this is the case in

India has been alleged by Mr. Paul Appleby. Of the Indian Parliament he writes :

> "Its reluctance to delegate its power in detail, as it is essential to do if Parliamentary powers are to be important and positive, discourages Ministers from delegating their powers, discourages secretaries from delegating their powers, and Managing Directors from delegating their powers."
>
> (*Re-examination of India's Administrative System with special reference to Administration of Government's Industrial and Commercial Enterprises*, Cabinet Secretariat, New Delhi, 1956, p. 45)

Whether Mr. Appleby is right in making Parliament the ultimate source of administrative over-centralisation is debatable. A more recent writer has suggested that the cause of much of the trouble is to be found elsewhere (see Michael Brecher : *Nehru, a Political Biography*, Oxford, 1959, pp.622-3.) In most cases, it is probable that parliamentary suspicion of governmental agencies merely reinforces an already-existing trend. It is possible, too, that the unusually intense suspicion that is sometimes reserved for public enterprises is due to ill-advised attempts to shield them from legitimate parliamentary inquiry, such as appear to have been made in respect of some of the Indian enterprises of the "joint-stock" type. (See, for instance, *Lok Sabha Debates*, December 10th, 1953, col. 1918.) However, one may readily agree that a legislature is behaving foolishly if, simultaneously, it attempts to enforce detailed ministerial responsibility for the affairs of an enterprise and criticises that enterprise's management for displaying insufficient initiative.

Other Relationships

54. The public sector, in a mixed economy, cannot live a self-sufficient life. Necessarily, a public enterprise develops a series of complex relationships with concerns in the private sector which function as its suppliers and customers, and sometimes as its competitors. In so far as the whole economy is working to a national plan, the broad character of such relationships is primarily a governmental responsibility. In their details, they are subject to normal commercial criteria. Their smooth functioning, however, may be greatly facilitated by some organised provision for mutual consultation between the two sectors, particularly as, if left to themselves, these are likely to regard each other as rivals or even as enemies rather than as collaborators. One method, which by no means meets with everyone's approval, is to appoint a number of prominent private industrialists as part-time members of the boards of public enterprises. Another is to frame personnel regulations (particulars as regards superannuation rights) in such a way as to facilitate the free interchange of officers and other employees between public enterprises and private ones. A third is to bring together public and private enterprise managers in courses of study provided by Institutes of Business Administration and Administrative Staff Colleges. (The experience of the British and Indian Administrative Staff Colleges is well worth examination from this point of view.) Understanding may also be increased if representatives of the two kinds of management sit side by side on the various advisory committees attached to the economic ministries, or on bodies established to conduct collective bargaining with the trade unions on a national scale. These devices will not eliminate tension between the two sectors. In a mixed economy, *some* tension of that kind is inevitable. If it stimulates a healthy emulation, it may even be desirable. The task, therefore, is to keep it within bounds, by not allowing it to extend to fields where it can only do harm to the national economy.

55. With *other public enterprises*, closer forms of co-operation are usually possible. In so far as several different enterprises are responsible to the same minister, and to the extent that machinery for inter-ministerial and inter-departmental consultation has been developed, such co-operation begins at the highest level. A somewhat controversial question is the extent to which the boards of enterprises should be used as theatres for

interdepartmental and inter-enterprise discussion and compromise. The answer largely depends on the general role for which the board is cast in the public enterprise scene. Mr. Appleby, who believes that boards should not attempt to immerse themselves in management and should be of an advisory rather than of an executive character, in fact if not in law, regards them as "organs of governmental coordination", whose members should be "definitely empowered to speak for their respective ministries and capable of judging which matters should, in spite of delegation, be referred to higher authority". Consequently, he suggests that a board should consist, apart from the General Manager of the enterprise, of high officials of other enterprises and of ministries with "related, supervising and co-ordinating interests." (*Op. cit.*, pp. 54-5). From the standpoint of most British students of public enterprise, this view is highly unorthodox. Nevertheless, it demands very careful consideration, for the needs of the less developed countries, in this respect as in others, are liable to be very different from those of the more developed ones.

56. The question of how far, if at all, *competition* between public enterprises is desirable is a much less important one in Asia and the Far East than it is in Europe and America. Current British discussions, for instance, about price and service competition between nationalised gas and nationalised electricity are not likely to evoke much interest. More interesting, perhaps, is the possibility of effecting economies through joint provision of *common services*. This has been extensively discussed in Britain in connection with gas and electricity meter reading, and recently the Select Committee on Nationalised Industries has examined the question of how far the workshop and certain other services of the two aircraft corporations might be amalgamated.

57. Relations between the enterprise and the *public* are of vital importance for managerial and employee morale. Strictly speaking, one ought to distinguish between enterprise relations with *the* public (*i.e.*, the general body of citizens) and with *its* public (*i.e.* those who are consumers of its products and services). Neither, however, is *primarily* a matter for "public relations" in the narrower and more technical meaning of the term: for ultimately—and quite rightly—an enterprise will be judged by the efficiency of its performance, as measured by the quantity, quality and price of what it produces. But efforts to project itself, to create a favourable public image, are by no means to be despised, except when they take the form of the production and distribution of those glossy and misleading brochures that find their way so readily to our wastepaper baskets. Good and honest publicity can do much to clear up misapprehensions, which are liable to be very widespread and frustrating to management when the enterprise is working under conditions which do not permit it to give the public all that the latter thinks it has a right to expect. Much depends on the attitudes of those officers who have frequent contact with consumers and are given initial responsibility for answering their complaints. Machinery for dealing with complaints and suggestions *expeditiously* is particularly important, and when a complaint has to be left unsatisfied or a suggestion unfulfilled a clear, courteous and—as far as possible—full explanation should be given.

58. To what extent should *consumers* be provided with organised opportunities to influence the policy of the enterprise's management? The demand for consumer representation, as an alternative to the consumer *preference* which can be exercised when there is more-or-less free competition, becomes vocal to the extent that the enterprise enjoys a monopoly in its particular field. In Britain, the device of the Consumer's Consultative Council (with advisory powers only) has been used. In France, the consumer has been given representation on the boards of the enterprises. Neither has been particularly successful or has stimulated widespread imitation. The consumer representatives in France have been unable to exercise much influence, while in Britain the dissatisfied consumer rarely attempts to enlist the services of the appropriate Council on his behalf. After failing to get satisfaction from the appropriate level of management, he is much more

likely to write to his Member of Parliament, who thereupon gets in touch with the enterprise concerned or possibly asks a Question in the House. In this the consumer is probably right, for in a democracy parliament *is* the ultimate, and most powerful, safeguard for "consumer sovereignty", as far as public enterprises are concerned. The difficulty, of course, is that for too many complaints may be funnelled through the narrow parliamentary bottleneck. In theory, therefore, organised consumer representation of a more direct kind, and at a lower level, is very desirable. The unsolved problem is how best to provide for it.

59. The sharpest impact made by a public enterprise on the consumer is through its *distribution and sales* organisation and through its *price policy*. The first is highly-specialised matter of which we shall say nothing, apart from noting a frequent tendency to neglect it, under the mistaken impression that if production is satisfactory, distribution may be more-or-less left to take care of itself. Some of the factors affecting the price of a product or service have already been noted, and we shall here confine ourselves to a brief consideration of how far an enterprise can be permitted to act freely in this vital matter. Clearly, if competitive conditions prevail, the case for such freedom will be a strong one. There would be no point, for instance, in the French Government's attempting to control the prices of Renault cars; and the Select Committee on Nationalised Industries in Britain has recently suggested, that, in view of the fact that British European Airways is in competition with other forms of transport on domestic routes, the Minister's control of the fares that it charges for internal flights (which, in any case, is non-statutory) might be abolished (*op. cit.* p. xxv). To the degree that an enterprise has a monopoly, however, and to the extent that its operations have an importance that extends to the whole national economy, the case for control is strengthened. In many cases, it has proved necessary—and indeed inevitable—in spite of the fact that it is not provided for by law. The British coal industry, by law, is free to charge what prices it likes, so long as it attempts to perform its statutory duty of breaking even, "taking one year with another". In fact, by a so-called "gentlemen's agreement", it submits proposed price changes to the Minister of Power, and cannot give effect to them until it has obtained his approval. Whereas it has been suggested that this informality is quite wrong, no one has seriously proposed that the Coal Board should be entirely freed from such control; for the price of coal is too important a factor in the national economy to be left to the unfettered discretion of a public enterprise.

60. In an underdeveloped economy, which is attempting to reach higher levels through the agency of a national plan, such price control may have an even more significant role to play. The danger, of course, is that price decisions may be taken in the dark, without sufficient expert advice and preliminary consultation with all concerned (including the *enterprise itself*), or that price policies may become the sport of political pressure-groups. There is no guarantee against this sort of nonsense, apart from intelligent politicians with honest policies. Nevertheless, the likelihood that decisions will be sensible and well-informed may be increased by the establishment of advisory organs, expertly staffed, and by a statutory requirement that the minister should consider their recommendations and, if he decides to modify or reject them, publicly explain his reasons for doing so. In some cases, it may be considered desirable to set up a Price Tribunal. But it should always be remembered that in price-fixing one cannot have regard solely to the maintenance of a "just balance" between the respective demands of producer and consumer. Considerations of national economic policy have to come first. It was ostensibly for this reason that the South African Minister of Railways refused to establish a Rates Tribunal, which had been recommended to him on the grounds that "the determination of rates is a technical function which requires the continuous application of expert knowledge and experience" and should therefore be assigned to "independent experts who are not subject to political or sectional pressure". His view was that "it would be fatal if the railways structure were to be tampered

with by a body having no responsibility for railway revenue". (See Hanson: *op. cit.* p. 385.) What the Minister failed to make clear—and what makes one suspicious of his motives in rejecting this advice—was that these objections would not apply to a Tribunal with *advisory* functions only. In dealing with a public enterprise of any kind, the minister is always in need of as much expert advice as he can muster. Never is he in more urgent need of it than when he is concering himself with the important and delicate question of prices.

B. INTERNAL ORGANISATION

61. To a large measure, an enterprise's performance will depend on the quality of its top-level organisation. In most of the enterprises with which we are concerned, supreme authority (within the limits set by law and ministerial directive) is vested in a Board. There is no reason why this should be so. One-man management is equally feasible, and some consider it preferable. In the United States, for instance, the "Hoover" Commission expressed the view that there should be no corporate body occupying a position in the chain of command between the head of the responsible government department and the enterprise's executive management, and that a Board, if appointed, should have a purely advisory role. It will often be found, moreover, particularly in underdeveloped countries, that Boards which have been legally invested with executive authority are *in fact* almost entirely advisory in character. Defenders of the "board" form of top-level organisation, however, have presented a strong case. Professor Marshal Dimock, for instance, holds that

> "there is an important area of sub-policy and decision-making midway between the over-all action of Congress and the point where the administrator takes up. It is this area that a representative and resourceful board of directors must occupy if government corporations are to operate with efficiency and accountability".

The responsibilities of such a board are, he considers (*i*) sub-policy-making; (*ii*) checking the internal budgetary programme; (*iii*) studying organisational questions; (*iv*) making strategic executive appointments; (*v*) controlling financial methods and reporting and (*vi*) conducting public relations. It is concerned, in short, not with detailed administration but with "policy and checking on results". (See *American Political Science Review*, Vol. XLIII, No. 5, October, 1949.) How far a board is necessary for these purposes is disputable, but if there is to be one its role can hardly be other than that which Professor Dimock has defined, unless it is to become a nuisance rather than an aid to management. In any case, the Board has become so widely accepted an institution that—as Mr. Appleby, whose views coincide with those of the Hoover Commission, has recognised—the question of abolishing it is hardly one of practical politics. Discussion can therefore concentrate on how best it may be composed and used.

62. Two extremes of board organisation are open to adoption: the "functional" and the "policy". In the first, the Board consists exclusively of the enterprise's senior executive officials, meeting under the chairmanship of the General Manager. In the second, it consists, apart from—possibly—the General Manager (who may or may not be Chairman) of "outsiders", drawn from the public service, from industry, and from the professions, most of whom will be "part-timers". Between these two extremes, neither of which is often adopted in its "pure" form, a whole series of compromises is possible. The argument between the respective advocates of the "functional" board and the "policy" board continues. It cannot be finally settled, because enterprises differ so widely in their purposes and characteristics and in the external influences to which they are subjected. I have given elsewhere, however, what seem to me cogent reasons for prefering the "policy" type of board for enterprises in underdeveloped countries. (*See Public Enterprise and Economic Development*, pp. 403-10.) Briefly, they are (*i*) that the "functional" board tends to lack the necessary prestige;

(*ii*) that it tends to bring disputes between senior managers into the governing body of the enterprise, where they are all too often settled by a process of bargaining; and (*iii*) that for this and other reasons it is often incompatible with strong and decisive executive leadership. The "policy" board can take a broader view, is less likely to interfere in matters of managerial detail, can place the implementation of its policy decisions where it belongs—in the hands of the General Manager, and bring more objective criteria to bear upon executive performance. As we have seen, if it consists predominantly of representatives of government departments, of other enterprises, and of private industry, as will normally be the case, it can also function as a means of keeping the enterprise's policy in line with the requirements of broad economic strategy.

63. A hotly disputed question is whether representatives of the enterprise's labour force should have places on such a board. No country apart from Yugoslavia has adopted the pattern of "workers' self-government", and none of the ECAFE countries are likely to do so in the near future—although they would be well advised to study the interesting Yugoslav experiment with care and sympathy. In many enterprises throughout the world, however, the trade unions catering for the different grades and categories of workers are provided with one or two board seats. Opinions as to the value of such an arrangement differ widely. In Germany, workers' representation, both in public and private industry, is now accepted by most sections of opinion. In Great Britain, on the other hand, only a minority, even among trade unionists, is in favour of it. In France, the system of "tripartite" boards, which was introduced mainly to satisfy the demands of a syndicalist-minded General Confederation of Labour, has not worked very well. The danger, clearly, is that management will regard the workers' representatives as "second class' members of the Board, while the latter will find themselves perpetually embarrassed by a division of loyalties. A high level of mutual understanding can circumvent these difficulties, but this requires that both managers and trade unionists should possess a maturity which, in an underdeveloped country, is only rarely theirs. Hence it is not surprising that India, for instance, while not rejecting workers' representation in principle and looking forward to increased trade union participation in industrial management, has decided for the present to follow the British rather than the French or German pattern for the constitution of its boards. (See *Second Five Year Plan*, pp. 572-777; *Report of the Study Group on Worker Participation in Management*, New Delhi, 1957.)

64. Various types of relationship between Board and General Manager are possible. In some cases, he is not even a member of the Board, but merely attends its meetings, when required to do so, to give advice and to report on his stewardship. This is usually an unsatisfactory arrangement, and is not to be recommended. A General Manager, being the key man in the organisation, ought to have board membership, and there is a very strong case for giving him the chairmanship. If the chairmanship and the general managership are occupied by different persons, fruitless and energy-consuming conflicts can easily develop between them, unless their personalities and policies happen to be particularly well attuned. It is also very important, particularly in a new organisation, that the prestige and authority of the General Manager should be enhanced in every possible way. The worst possible situation is one in which the Board is constantly looking over the General Manager's shoulder, and attempting to concern itself with matters of day-to-day administration which ought to be his exclusive responsibility. I have encountered several examples of this situation, and the results are invariably unfortunate. It is most likely to arise when the Board (*i*) has frequent meetings and (*ii*) devides itself up to a large number of committees for the supervision of particular aspects of the enterprise's work. Full board meetings more frequently than at quarterly intervals require very special justification, and if the board decides to give itself a committee structure, it should do so on the basis of the broadest possible allocation of responsibilities.

65. On structural organisation below the Board level, it is very difficult to generalise, as each enterprise will have its own distinctive needs and problems. There are, of course, certain principles, such as "line and staff" and "span of control", which apply to all enterprises above a certain size; but these have been written about so extensively that it would be otiose to attempt to summarise them here, although it may be worth while to call attention to an unusually perceptive but not sufficiently well-known discussion of them, in Part IV of Professor P. Sargant Florence's "The Logic of British and American Industry" (London, 1953). The difficulty is not to grasp such principles but to apply them in concrete situations.

66. Two of the most troublesome problems, particularly for those with limited experience of industrial management, are co-ordination and delegation. Both are exacerbated as the organisation increases in size. The bigger the organisation, the more specialised do managerial functions become and the more numerous are the "levels" in the line of command. The more difficult, therefore, is the task of ensuring that everyone knows what everyone else is doing and that all are working to a common policy.

67. Coordination demands, not merely that the various types of executive on the same level and at different levels are pulling together, and not in different directions, but also that the right kind of specialist advice is both available and received before managerial decisions are taken. There is no recipe for the achievement of these desiderata. Sometimes excessive faith is placed in a network of committees, or in the calling of periodical conferences. When these devices yield insufficiently satisfactory results—as is often the case—the General Manager sometimes decides to go to the opposite extreme, sitting at his desk, issuing orders without consulting anyone, and endeavouring to secure co-ordination by insisting that all but the most routine matters are brought before him. The results of this are usually even worse. The machine becomes clogged; subordinate managers, deprived of any real responsibility, cease to exercise authority and experience a lowering of morale; and the General Manager, overwhelmed with a mass of detail, all of it "urgent", has no time for making those broad strategic decisions which are the essential basis of effective coordination. Oscillations between these two extremes are the product of a purely *formalistic* approach to coordination. Good committee work and good discipline are equally necessary, but neither can replace what F.C. Hooper calls "keeping touch".

> "Paper contact", he writes, "is no substitute for personal contact. Nor can the latter be regarded as adequately secured by periodic round-table conferences. A head of a great business will commonly make a practice of seeing every one of his principal departmental heads, perhaps numbering 200 or 300, man to man at least twice a year, and many of them far oftener. At these meetings, which will be private and personal, the whole results of the subordinate's activities will be 'on the table' with the fullest opportunity to discuss in principle and in detail. Similarly, a director, or departmental head, will spend the minimum time possible at his office desk, and as much as possible in the department, the factory, or the branches... The initiative in keeping touch should come from the top. It is the head who should seek the subordinate and not the subordinate who should be left to seek out the head, for in practice he will seldom do so".
>
> (*Management in the Public Services*, in *Public Administration*, London, Vol. XXVI, No. 4, Winter, 1948)

68. As for delegation, this is the very essence of the line and staff concept. Only by a clearly defined and adequate scheme of delegation can top management free itself for the essential duties of policy formation and overall control. Only thus can subordinates enjoy an authority commensurate with their responsibilities, become genuine leaders within their spheres of jurisdiction, and gain the experience necessary for promotion to higher and more responsible posts. Yet at the same time control must be maintained. It is never safe to delegate a function and then forget all about it.

Periodically, the subordinate must have his performance checked and be held to account. To build into the system adequate checks, yet at the same time to avoid excessive interference with the performance of delegated functions, is not easy. It is perhaps particularly difficult in a country where excessive governmental centralisation tends to be reproduced in public enterprises, and where managers, both top-level and subordinate, are inexperienced and nervous. A General Manager who finds himself minutely accountable to higher authority will naturally be hesitant about allowing his subordinates a greater freedom than he himself enjoys, especially if he has doubts about their capacities and powers of judgement. Yet a bold scheme of delegation is vital if the clogging of the managerial machine is to be avoided, and if subordinates are to learn—as, in the last resort, they only can learn—by making and taking responsibility for their own mistakes.

69. The structural implications of all this are that organisation needs to be adapted to the qualities and capacities of the personnel available. In all cases, the maximum simplicity is desirable through avoidance of excessive spans of control, of long lines of command, of too much specialisation in the managerial function. These *desiderata* may be hard to reconcile, for, in an organisation of given size, the shorter the span of control the longer will be the line of command, and the smaller the degree of specialisation the wider will be the span of control. In all respects, however, the large enterprise will offer more difficult problems to inexperienced management than the small one. The conclusion is obvious. "Thinking big" may easily defeat its own object. Both the size and the complexity of the organisation must be adjusted, as far as possible, to the kind and quality of managerial talent upon which the enterprise can draw.

Procedural and Supervisory

70. The more general things that need to be said under this heading have already been said; for structure is intended to embody, or facilitate, certain kinds of supervisory procedures, and is therefore hardly meaningful apart from them. A few further comments, directed to the avoidance of various common faults, will not, however, be out of place.

71. The function of management is all too frequently conceived simply as the making of decisions which, expressed in the form of *orders*, are communicated, verbally or documentarily, to subordinates who are expected to obey them without question or comment. There is no doubt, of course, that this kind of management will work—but it rarely works well. For the essence of good management is leadership, and leadership is a matter, not merely of issuing orders, but of convincing those to whom they are issued that *on the basis of their own experience* the orders are the right ones. Obedience then becomes both willing and informed, and it will be all the more so to the extent that the recipients of the orders have participated in their forumulation. When this happens, it becomes less and less necessary to think in terms of "orders" at all. In a sense, the "government of persons" is replaced by the "administration of things". This, of course, is an unattainable ideal, but nevertheless one towards which progressive management should always be working. The writings of Mary Parker Follett on this subject are of great interest, and may be commended to participants in this Seminar.

72. Even if we continue to think in terms of a flow of orders downwards, we must remember that these are unlikely to be good orders unless there is an equally vigorous flow of information and suggestion *upwards*. Management in a state of splendid isolation can achieve little. Subordinates must not merely be allowed but positively encouraged to be constructively critical. If they disagree with the way in which something is being done, they must have opportunities to say so to their superiors, and if possible to suggest a better way. Otherwise, they will simply grumble unconstructively among themselves. Yet this freedom of criticism has to be combined with firm discipline. Perhaps the conceptian of "democratic

centralism", originated but by no means consistently practised by the Russians, is the right one for a public enterprise—the maximum amount of discussion about what should be done *plus* the maximum discipline in the doing of it. But this, again, is not an ideal that is easy to realise. What enterprises in underdeveloped countries would seem most urgently to need is a new conception of the role which a "subordinate" should play. All too frequently, in the civil services of those countries, he is regarded as the passive recipient of directives, to be judged by his "correctness" in carrying them out. He is not expected to show initiative, and advice from him is often considered as approaching impertinence. Of the Turkish civil service, I have written:

> "The young man is not usually expected to think critically about his country's administrative system or to develop ideas for its improvement. Superiors do not normally expect suggestions from him, and are liable to resent them, as implied criticism, if they are made". (*Universities Quarterly*, London, Autumn, 1955).

In India, writes Mr. A.D. Gorwala, many Ministers "definitely do not want independent advice", while others "say they want it but react to it in such a way that it is quite clear that they dislike it". (*Report on Public Administration*, New Delhi, 1951, pp. 44-5) Such attitudes are inimical to efficiency in the civil service; they are even more inimical to it in the comparatively new and experimental field of public enterprise. So is the widespread habit of regarding a subordinate as a potentially indisciplined creature who has to be "watched" in the manner of a warder watching a prisoner. The job of the superior is not that of periodically "catching out" the subordinate, but that of helping him to achieve higher standards of efficiency. This can only be done if the subordinate regards himself as free to bring his problems and suggestions to his superior's notice, and is assured of a sympathetic and constructive response from the latter.

73. What we are emphasising, in short, is the importance of communications, upwards, downwards and sideways. Good and flexible communications not only facilitate the widest possible participation in policy formation; they ensure that all concerned know what the enterprise is trying to do and enable each individual to see *why* he is performing a particular job in a particular way.

> "All too often", writes a former Staff Director of the British National Coal Board, "one finds people filling up forms that they do not really understand and sending them on to other people—having no idea of what those people are doing with them. If that is happening, the management are failing because a man can never do a job very well if he does not know why he is doing it". (J.V. Wood: *A Modern Approach to Management*, in *Public Administration*, London, Vol. XXXV, Autumn, 1957)

74. At no time are communications more vital than when the enterprise is engaged in a revision of its operating procedures. Initially, in a new enterprise, procedures have to be based on those found successful in analogous, functioning enterprises, modified in such ways as the General Manager, in consultation with his senior officials, considers appropriate. Such procedures, however, are necessarily experimental, and will need to be amended from time to time as experience shows up their deficiencies. When such a time arrives, it is most important (*i*) that the views and suggestions of all those involved in working the procedures should be heard and considered; (*ii*) that there should be a systematic investigation, to discover why, and in what respects, the existing procedures are unsatisfactory, and in what ways they may be improved; (*iii*) that when the new procedures are introduced, the changes made, the reasons for them, and the effects that they will have on the individual's job and on his relationships with other people in the organisation, should all be clearly explained.

75. Minor changes in procedure will of course, be made quite frequently, and personnel will rarely find serious difficulty in adjusting

themselves to them. Major changes, however, should take place as seldom as possible. If they are frequent, a sense of insecurity is created and the work of the enterprise is thrown into confusion. Familiar routines, so often abused, are essential to the smooth running of any organisation, and even a bad routine, if understood, is better than perpetual change. Many are the examples, particularly from underdeveloped countries, of enterprises that are "reorganised" so often that the personnel, to use a colloquialism, do not know whether they are coming or going. It may happen, of course, that an enterprise has reached such a degree of decrepitude that only the shock treatment of radical reorganisation can do it any good. In such a case, it will be necessary to replace, not merely the procedures, but at least the greater part of the senior management. More usually, it is advisable to introduce important changes gradually, bit by bit, so that their temporarily disruptive effects are limited in their impact. Advice, sometimes given by foreign "experts", that a wholesale, radical, top-to-bottom reorganisation is necessary must often be taken with a pinch of salt. The so-called ideal may be clearly envisaged, but it cannot be "introduced" at one fell swoop. The problem is to discover where to *begin*, and then, to use the expression of two Swiss management engineers, to build a series of "bridges" between the old and the new, and to give the people concerned the maximum help, by way of precept and example, in traversing what may be to them a perilous path.

76. One further problem of internal procedure deserves special mention: the use of *staff* agencies. The meaning of "staff" should perhaps first be defined, as it is often misunderstood. As distinct from a "line" agency, which has operational responsibilities, a staff agency is primarily concerned, as Mooney and Reiley say, with information, advice and facilitation.

> "Thus the general managing director may have a staff that advises him as to the design of product, and the methods of producing it, by undertaking research, planning, costing and statistical control... In the second rank, the sales manager may be advised as to advertising methods, or price and output/policy, by a staff specialising in market research, and the labour manager may be advised as to the selection of labour by a psychologist, and as to piece rates by a time-and-motion expert. In the third rank there may be a staff for market research attached to each sales supervisor and this local staff may be advised by the central market research staff. It is to be noticed that none of these staff officers are part of the hierarchical backbone formed by the managing director and his subordinates and foremen, nor part of the functional division of powers seen in the division between sales, works, and labour managers. The staff are specialists in research, planning and checking of results, in which much statistical control and paper work may be involved; but they do not directly command on their own authority". (P. Sargant Florence: *The Logic of British and American Industry*, p. 158)

77. Certain British enterprises—and particularly nationalised industries—have been criticised for multiplying "staff" functions unnecessarily, and it is well-known that staff officers sometimes display a tendency to "empire-build", unless checked. In underdeveloped countries, however, it is more usual to find that staff functions are denuded of both personnel and prestige. An apposite example is provided by the Philippines' Government Survey and Reorganisation Commission Report on the national Power Corporation (Manila, 1956). The Commission found that such assistance as the General Manager of the Corporation had on personnel questions came from "a clerk in the Clerical and Records Division", who also acted as his secretary. Eighty per cent of her time was devoted to the recording of leaves and absences. The same enterprise was criticised for its neglect of the accounting function. Its accounting staff had increased

by only two employees since 1952, although the volume of its transactions since that date had trebled. As a result the accounts were three months behind.

78. Even when adequate staff agencies have been created, they are not always properly used. If a staff agency is not regularly consulted by management, and its advice normally accepted, it becomes a useless, parasitic burden on the enterprise. Conscious of this, it will sometimes attempt to "justify" itself by infiltrating into the line of command, invariably with unfortunate results. Another possibility, by no means unknown, is that the manager, ignorant of the purposes for which a staff agency exists, attempts to deligate to it responsibilities that ought to be his. The result of this may, in practice, be the same as that of "infiltration", viz. the replacement of *one* line of command for a particular managerial function by several uncoordinated and even rival parallel ones. This does not mean to say that a manager must *never* give a staff agency the power to issue orders; for division between line and staff cannot, in practice, be as rigid as that. It does mean, however, that whatever orders a staff agency issues must be within clearly-defined policy limits and under the manager's express authority. The main *desiderata* are that a staff agency should possess sufficient prestige and *expertise* to gain the ear of management, should be *informed* of all policy issues in respect of which its "information, advice and facilitation" are needed, should be given clear assignments which are relevant to the needs of the enterprise, and should be "indoctrinated" in the general strategy that the enterprise is pursuing. If these are realised, it can relieve the manager to whom it is attached of a burden of thinking and research far too heavy for one man to carry.

Personnel

79. As we have already indicated, "structure", "procedure" and "personnel" are interdependent. Much that has already been said might have been put under the "personnel" heading. It remains, not to attempt to summarise the doctrines preached by the many excellent modern textbooks of personnel management, but to draw attention to certain problems of personnel which are particularly acute in the public enterprises of the less developed countries. In passing, however, it may be worth while to remind Seminar participants that ideas about personnel management have undergone a long and fruitful evolution since their crude "Taylorian" beginnings early in this century. Personnel management may now be regarded as one of the applied behavioural sciences, as a result of the seminal work of writers such as Elton Mayo, Chester Barnard, Mary Parker Follett and many others. It treats the "executive", the "supervisor" or the "worker" not as a cog in a machine, but as a *man*, with hopes, fears, ambitions, frustrations, etc., and a desire to obtain from his working relationships certain satisfactions (*i.e.* status, prestige and membership of a cooperant group) the denial of which reduces not only his individual happiness but his capacity to devote his abilities to the achievement of the enterprise's objectives. As this modern attitude towards personnel management is not yet universal even in the developed countries, to draw attention to it may be worth while. Together with other up-to-date managerial doctrines, it is perhaps most clearly and cogently expressed in Simon, Smithburg and Thompson's book, "Public Administration".

80. For managers of enterprises in the less developed countries, one of the biggest headaches is the adaptation of the labour force to the requirements of modern-type production. In Europe and America, the labour force, to a considerable extent, is "ready made", as a result of an extended historical evolution. In an underdeveloped country, it has to be created. This does not merely involve the teaching of techniques, which is a *comparatively* simple task (as the experience, during the Second World War, of training illiterate peasants as *e.g.* truck drivers conclusively proved). More important, and more difficult, is the adjustment of *attitudes*. Inevitably, this takes a long time, for the human being is not infinitely adaptable

and can be moulded to a new pattern only gradually. Hence it places a considerable strain on the patience and makes heavy demands on the ingenuity of management. Under these circumstances, there may be a tendency to take the tempting but illusory short cut of using the "big stick". When this fails—as ultimately it will—the manager may all too easily find refuge in cynicism and start abusing his workers as "hopeless". It may therefore be apposite to remind him of the wise words of a management expert, who expressed the opinion that when management said about workmen that "the more we do for them the less they do for us" this proved nothing except that management had been doing the wrong things.

81. The problem of the training and education of personnel is, of course, one that can be solved only with the cooperation of the government, which is responsible for the provision of schools, colleges and technical institutes. Industry can help, however, by making the government aware of its requirements and by releasing personnel for part-time instruction and for "sandwich" courses. It is always a mistake to claim that workers, supervisors and managers cannot be "spared" for courses that will lead to the improvement of their qualifications. But the major responsibility of the enterprise itself is "training on the job". Although the techniques of this are well known, there are certain considerations which enterprises in the less developed countries ought to bear particularly in mind. The first of these is the importance of speed. There is neither the time nor the money for the more conventional and leisurely systems of apprenticeship. New methods of enabling the operative to acquire the *essential* knowledge for the performance of his job, in the minium time, need to be devised. War-time experience may be relevant here, and more directly, the experience of such institutions as the "Vestibule Schools of Training" in Puerto Rico (See Heriberto Alonso: *Recruitment and Training of Workers*, Training Division, Department of Industrial Services, Development Administration, Puerto Rico.) An equally important need is the rapid development of people with potentialities as minor technicians, foremen, supervisors, etc.—for there is almost invariably an acute shortage of such "middle-level" personnel. Quick recognition of such potential talent among skilled and semi-skilled workers is one of the most vital duties of lower management. The realisation of these potentialities, in an underdeveloped country, may involve, not merely the provision of appropriate forms of training, but the releasing of selected persons for various forms of adult education, designed to improve literacy and to widen general knowledge. Thirdly, special attention needs to be paid to the training of clerks and secretaries. The low-grade, poorly-trained clerical labour that so often proliferates in the offices of the enterprise constitutes a bottleneck, the seriousness of which is not always realised. A clerk who can type quickly, or fill up a form clearly and accurately, or set out statistical information intelligibly, and who can be entrusted to fulfil minor responsibilities without constant supervision, is a pearl of great price. So is a secretary who can relieve her executive of the burden of routine, by arranging his appointments, protecting him from unnecessary annoyances, drafting answers to correspondence of lesser importance, etc. It may be added that this requires, not only that secretaries should be properly trained, but that executives themselves should be trained in the *use* of secretaries, who are frequently treated simply as typists.

82. Some of the above considerations also apply to training for management. Here the *sine qua non*, both for adequate performance in a particular job and for the selection of people suitable for promotion, is bold delegation of responsibility. Managers can learn to manage only by being given the power to make decisions and the duty to correct their own mistakes. This is the essence of practical training, but it can be greatly accelerated by proper supervision, through which the superior, while carefully refraining from imposing his own judgement on his subordinate (except when he has a clear duty to do so, or where failure to do so would result in serious error), places the benefit of his greater

knowledge and experience at the latter's disposal, elicits his views (either verbally or by way of memorandum) on matters beyond the scope of his immediate responsibility, and—in suitable circumstances—employs him as a deputy. Nothing is worse than the situation, which I have often encountered, where a subordinate merely acts as an undifferentiated assistant to his superior—as a kind of "dogsbody" with multifarious but uncoordinated duties and no independent authority. Schools of Business Administration can provide more formal training, and membership in Business Administration Institutes help to widen experience. A period of foreign residence, with attachment to an up-to-date firm, is obviously of great potential use, but too much is sometimes expected of it. If the manager comes back thinking that he knows everything and full of enthusiasm for the introduction of "all the latest" managerial techniques into the enterprise, considerable harm may be done, for the problems of an enterprise in an underdeveloped country can never be solved by the mechanical imitation of methods that have proved successful in a totally dissimilar economic, political and social environment. Sometimes, it may be better to send the potential promotee to a reasonably successful enterprise in a country where conditions are broadly similar to those in his own.

83. Training programmes, however well conceived, are useless in the absence of properly-devised machinery for placement and promotion. In a comparatively small organisation, the problem of finding the "right man for the job" is simple, as the manager has personal knowledge both of what the various jobs involve and of the people available to fill them. In a larger organisation, where the function of personnel management has become a specialised one, placement and promotion must be governed by some *system*, deliberately devised to ensure—as far as any system can ensure—that people's abilities, interests, experience and ambitions are pressed most effectively into the service of the enterprise. This may involve, particularly in an underdeveloped country, not only finding the man for the job but fitting the job to the man. It is extremely difficult to do either unless adequate *job descriptions* exist, for if management has only a vague and general idea of what the duties of a job are to be, it will also have only a vague and general idea of the qualities required for its performance, and will not even know whether the job is of a kind for which suitably-qualified people are actually available. Job-description, therefore, is an essential basis for personnel management. In a large organisation, it ought to be the function of a staff officer, of suitable seniority, reporting to the personnel manager. This need may seem too obvious to require restatement. It would be so if the work of job-description were not so often neglected, or delegated to people so low in the managerial hierarchy as to lack influence.

84. Once the point has been accepted that particular jobs have specific duties attached to them, requiring specific abilities and aptitudes for their performance, the vexed question of merit *versus* seniority, in matters of promotion policy, ought to solve itself. Ideally, merit should be the sole criterion. In practice, however, compromises have to be made. In a country where age, in itself, carries prestige, the young man, although possessing the qualifications for a high post, may find himself unable to exercise the necessary authority. Moreover, people who have expectations of promotion, based on long, faithful but not particularly distinguished service, may strongly resent seeing somebody else promoted "over their heads". The resultant undermining of morale and disruption of cooperative relationships within the group may, in some cases, constitute disadvantages which outweigh the advantage to be derived from the "merit" promotion. Much, of course, depends on what people are used to. If an organisation *begins* with a system of promotion grades based on seniority, the introduction of "merit" as a criterion will meet with more resistance than if this criterion has been introduced, at the outset, as a well-understood managerial policy. Much, too, will depend on the origins of the people concerned. It is usually very difficult, for instance, to win

acceptance for the merit principle when an "autonomous" enterprise is created out of a government department, working to well-established civil service rules. Another problem is the *assessment* of merit. "Objective" tests may sometimes be used, but, generally speaking, they are more useful for placement in the initial job than for promotion up the hierarchy. Inevitably, main reliance will tend to be placed in the reports made on a man's work by his superior, and here "subjective" factors can run rampant, however carefully devised the report forms may be. If corruption and nepotism are present, promotion on such a basis may be worse than promotion by seniority. These complexities tax the ingenuity of honest and progressive managers. There is no formula for solving them, but two considerations ought always to be borne in mind, (*i*) that, other things being equal, merit *ought* to be the sole criterion for promotion; (*ii*) that, whereas merit and seniority often coincide in the lower ranks (in so far as experience of the work rather than exceptional intelligence is the main requirement), this coincidence tends to become less frequent the higher up the hierarchy one goes.

85. With regard to personnel policies generally, a much disputed question is whether a public enterprise should attempt to set an example in the treatment of its employees, or simply follow the practices of the best-organised and most progressive private enterprises in the country concerned. There can be no answer which is valid for all countries. In underdevloped countries, however, where conditions in private enterprise are often very bad, because employers are thinking in terms of quick profits and have little sense of social responsibility, the case for public enterprise's acting as a pioneer in introducing the very best practices that the economy can afford is very strong—so long as it is not carried to the extent of creating a highly-privileged or "feather-bedded" sector of the industrial community. In many such countries, public enterprises have begun to introduce higher standards of welfare which, in the course of time, and with the help of trade union pressure, will become widely diffused throughout industry. The danger, of course, is that an enterprise which is not required to make a profit, which occupies a monopoly position or enjoys some form of special protection, and which has the financial support of the government, may be tempted to push up these standards to a level which is clearly uneconomical, rather than face a "show-down" with the trade unions. Another danger is that it may weakly agree, under trade union pressure or government pressure or both, to accept a wages and salaries structure which undermines individual incentives. Combining the requirements of "welfare" with those of economic operation is never easy.

86. This must not, of course, be taken as implying that a public enterprise should adopt a hostile attitude towards employee organisations. Quite on the contrary, it has the task of helping them to become better established and more responsible, and of setting an example of orderly collective bargaining and joint consultation. Of well-run trade unions, the report of the Rangoon Seminar states that:

> "(*i*) they provide a convenient means of assessing employee group opinion on personnel policy and of negotiating with employees;
>
> (*ii*) they provide a vehicle, set up by employees, from which representation can be secured on labour-management committees such as the Whitley Councils in the United Kingdom, the Works Councils in Germany, and similar instruments in the public enterprises of other countries".

In the trade union, it adds, "workers who may have little opportunity for advancement in the corporation or enterprise itself, have a chance of leadership, identification with the purposes of their group, and a sense of social satisfaction that cannot perhaps be afforded to them otherwise within the enterprise" (Op. cit. pp. 51-2). It may be that more than one participant in this Seminar will say, "That is all very well, but the

trade union with which I am concerned is not like that; it is an ephemeral, ill-organised body, constantly calling strikes at the least provocation. Sometimes for purposes which have nothing whatever to do with the enterprise, and led by demagogues drawn from the unemployed intelligentsia". There *are* trade unions like that, for trade unionism, like public enterprise itself, has to undergo its teething troubles. But it may be suggested that managers, before criticising the behaviour of trade unionists, should first criticise their own behaviour. Is the personnel side of the enterprise really on its toes, or has it sunk into an unimaginative routine? Have justifiable grievances been allowed to persist, as a result of sheer inertia and reluctance to disturb established practices? Have trade union representatives been invited to discuss their demands, reasonably, across a table, or have they simply been brought into the manager's office to be told what his policy is? Are subordinate managers in real contact with the employees for whom they are responsible, and making sufficient effort to enlist the group loyalties of the men in the service of the enterprise? Have supervisors and foremen been appointed for their technical knowledge alone, irrespective of their capacity for inspiring confidence and giving leadership? Have the representatives of the employees been deprived of access to those managerial levels where decisions affecting their welfare are made? These are the kinds of question that a manager should ask himself before he decides that "trade unionists are impossible".

87. What I am attempting to say about personnel management is summarised in the conclusion to the "personnel" chapter of the Report of the Rangoon Seminar, which can fittingly provide the conclusion also to this general survey of management problems.

> "An enterprise is most successful when its leadership is thoroughly conscious that its principal means of operation is through human beings and that each of these persons has a will of his own and is entitled to respect for the worth of his individual personality. Testing every management decision and method against this criterion is, in the long run, the simplest approach to enlisting the enthusiasm and cooperation of a working force".

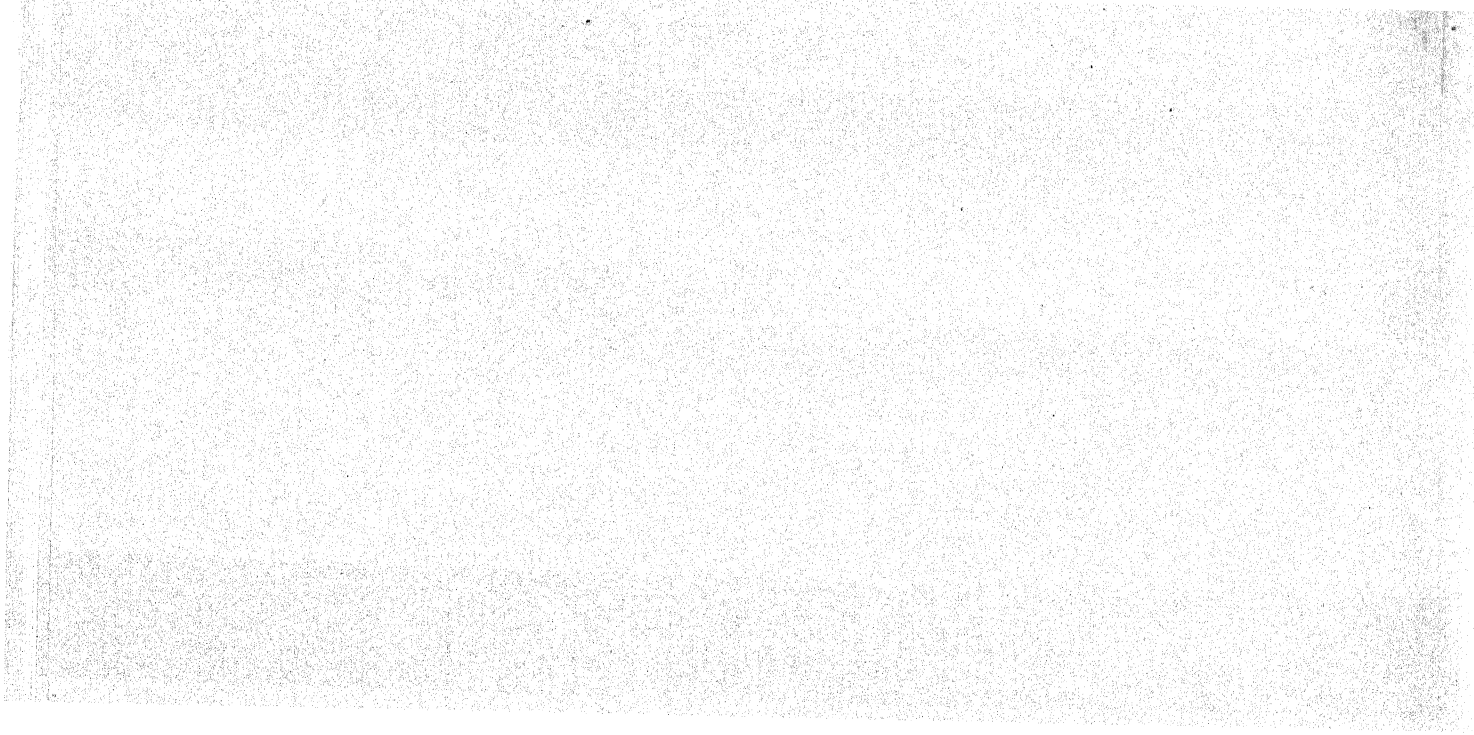
SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

MEASUREMENT OF MANAGEMENT[1]

NEW DELHI, INDIA
1-11 DECEMBER 1959



MEASUREMENT OF MANAGEMENT*

I. SCOPE OF THE PAPER

'Measurement' as consciously applied to management is a new phenomenon. For a long time management was taken to be an 'Art' pure and simple, the successful application of which depended entirely on the inherent capacity of the person who was entrusted with the job. But with the increasing size and growing complexity of business enterprises, it became necessary to devise tools which would enable management to fulfil its role by methods other than purely personal knowledge and observation. The scientific method came to be applied to the problems of management and this naturally led to an attempt at using objective and precise criteria for helping and judging the performance of management. This came to be especially so because the management function in a modern business enterprise came to be exercised by different persons operating at different levels and in different capacities instead of by a single person as in the past. The separation of ownership and operational management led to the owners having to perform the function of selecting their managerial personnel and judging their efficiency of operation. The actual management itself was too complicated to be carried out by any one person by himself. The head of the management organisation had to delegate many management functions to subordinates specialising in the management of particular functions or individual parts of the whole enterprise; and such delegation led to there being multiple tiers in the management hierarchy. This created the necessity for the higher level of management to lay down definite objectives for the lower levels to pursue and to be able to judge how far these objectives were being effectively attained. All this has necessitated the increasing use of 'measurement of management'.

The criteria of effective management can be viewed from two points of view :

(*i*) From the point of view of an outside controlling authority which would find it necessary to be able to judge whether the management that it has set up is functioning in an efficient manner. In the case of public sector enterprises it would mainly be the controlling government and the legislature which would be in this position; in the case of private enterprises it would be the shareholders.

(*ii*) From the point of view of the higher management itself such management may find it necessary to provide for internal checks of various types. This will enable it to carry out a continuous examination of the levels of efficiency at which the various component parts of the enterprise are functioning so as to correct

*Any views expressed in the paper should be taken to be the views of the author, Dr. H.K. Paranjape, who with the assistance of the Research Staff prepared the paper for the Institute, and not necessarily the views of the Institute as such.

inefficiencies and to ensure a high level of performance for the enterprise as a whole.

While there would thus be these two points of view regarding judging the efficiency of management, some of the criteria devised may happen to be commonly useful for both types, some may be more useful for one or the other category and some useful exclusively for either the external authority or the higher management. It is proposed in this paper to discuss some methods that can be used for measuring the effectiveness of management from both these points of view in relation to public industrial enterprises.

II. PROFITABILITY

The criteria for measuring management efficiency can be broadly divided into two categories : (*i*) General indices which are based on a money measure and provide some overall index of efficiency; and (*ii*) Particular indices which would indicate efficiency in regard to a particular part of the enterprise or the use of a particular input.

The criterion that is most easily and obviously applied is that of the 'profitability' of the enterprise. In the case of private enterprise this criterion is almost the only one used by shareholders because the basic motive of shareholders in investing their money in an enterprise is to participate in the profits of the enterprise and therefore they ultimately judge the efficiency of the management that they have set up from the profits that the management has been able to make on their behalf. Of course, it is true that shareholders may not judge efficiency of management entirely by measuring the profits made in a particular year so much as by assessing the profit possibilities as developed by the management over a period of time. But this only means that the measure is used not necessarily for a particular year as over a number of years. The basic importance of this criterion remains. This criterion is also important in the case of public industrial enterprises because public judgment about the success of the enterprise is many times based upon this measure and specially on a comparison of the profitability in public industrial enterprises and private ones. While as pointed out below this criterion cannot always be depended upon for measuring management efficiency, it has the great advantage that it is simple to calculate and understand. It provides a common standard which can enable the controlling authority to compare the efficiency of management in the various enterprises under its control. Moreover it is a general criterion which provides an overall indication of efficiency combining all the different operations together and this is useful for the outside authority whether it be the controlling government, the legislature or the public.

The application of this criterion has many deficiencies and this is especially so when one is considering the problem in relation to public sector enterprises. Profitability, that is the proportion of net profit to capital invested, depends upon (*i*) the method used for the valuation of capital, and (*ii*) the price policy. Peculiarities regarding these might considerably reduce the usefulness of this criterion as a proper measure of management efficiency.

As regards the former, paid-up capital or capital at charge minus depreciation may have no exact relationship with the present actual value of the capital employed in the enterprise. The value of investment may have appreciated or depreciated significantly since the original investment was made because of price fluctuations which may have led to a general increase or decrease in capital values. It will also be affected by the policy that has been pursued in regard to provision for depreciation, physical maintenance of capital and ploughing back of profits. There may also be overcapitalisation sometimes built in the financial structure of the enterprise from its beginning if considerable amounts of unfruitful expenditure have been capitalised. Moreover, the composition of the capital structure varies from enterprise to enterprise. One enterprise may have spent large amounts on the provision of housing and various township facilities for its employees

and this may constitute a significant proportion of its total capital. Another enterprise may have hardly any such what may be roughly called "unproductive capital' in its total capital investment. Such variations are bound to make the simple profitability criterion a misleading one.

It is obvious that the profit made by an enterprise will depend considerably on the price policy it pursues. Unless there is considerable competition in the market for the products of the enterprise, prices will be determined to a considerable extent not automatically in the market but by the deliberate policy of the producer. In such a case the policy pursued will influence profitability to a considerable extent. If maximisation of profits is the only objective set by the enterprise before itself and if it is permitted to pursue it, then the rate of net profit may be high; if there is some Government regulation of prices so as to ensure a fair deal to consumers and to allow profit to be made only at a moderate rate, the rate of profit is likely to be lower; and further if, as may happen in the case of some public industrial enterprises, the main objective is not to make profit but to ensure the supply of the product at a price which sometimes may even be lower than the cost the net profit may be either negligible or negative. It is obvious that in such a case profitability is not a useful measure of management efficiency. It may further be mentioned that the usefulness of this measure will depend very much upon an appropriate provision for meeting all costs including proper depreciation.

III. COST REDUCTION

In cases like those mentioned above, viz. public industrial enterprises where the maximisation of profit is not the objective, a good alternative for the measure of profitability would be that of cost reduction. This would also be a general measure covering the whole enterprise. If standard norms regarding the cost of production are laid down for all the main products of the enterprise, the efficiency of management could be judged by the management's success in keeping the actual costs within these limits. Obviously the extent to which this will be a useful measure will depend upon the care with which the norms are set up. If they are based purely on historical costs, they may provide only a very rough measure of management efficiency. Even so cost norms based on historical costs may have to be used in the earlier stages of an enterprise before other norms based on detailed study are built up as this latter process may take time; some experience regarding the actual working of the enterprise will have to be available before they are built up. If prices of most inputs remain at the same level such norms will provide a rough basis for measuring efficiency; even if prices are fluctuating costs at fixed prices of inputs can be specially calculated to provide a basis for comparison. There are always some reserves in any production process which can enable an efficient management to improve upon their performance and therefore the success of management can to a certain extent be fairly judged by its capacity to reduce costs below the norms established on the basis of previous history. The difficulty is that as management succeeds in utilising these reserves and thus eliminating waste, such efforts will yield progressively diminishing returns especially as year after year the norms themselves will be brought down according to the cost level actually attained. If cost reduction as compared to the cost norms historically established is to be the sole measure of management efficiency and every achievement in cost reduction is to lead to a further lowering down of cost norms management may be induced to be careful not to achieve too much of cost reduction in any given year. The experience of Polish industrial management where such methods were used for some time indicates that such difficulties are likely to arise.*

Therefore while cost norms based on purely historical data may be used at the beginning, an early attempt should be made to calculate standard

*As stated by various enterprise managers to a visiting research student in 1956.

costs for the various inputs based on a proper study of the processes of production. The general cost norms will then be simply an addition of these with a certain allowance for overheads. This will be a better basis for a cost norm. Obviously it will mainly serve the purpose only of providing a general measure of overall management for the benefit of the external controlling authority. It will be the itemised standard costs that will be more useful for measuring efficiency for the purpose of bringing about improvements.

An important disadvantage of an overall measure of efficiency like profitability or cost reduction is that in a complex undertaking where a number of different products are produced and there are a large number of constituent parts of the undertaking, the overall measure may conceal the state of efficiency in particular sections of the enterprise. Efficiency in some parts may be high enough to conceal low efficiency in other parts of the enterprise. This difficulty indicates the necessity of separate accounts being maintained for the different parts of the undertaking so as to provide a measure of efficiency in the different parts.

IV. OTHER GENERAL NORMS

In the case of a regulated or planned economy, there may be other objectives which the controlling authority wants the management to pursue. For example, the supply of certain commodities may be specially scarce. For various reasons it may be decided that the prices of these are not to be raised to a level which will indicate their actual scarcity. In such a case the economy in the use of such a commodity may be taken as one important criterion of efficiency. The supply of foreign exchange may well belong to this category in the case of a developing economy. It may be decided not to change the exchange rate to indicate the actual pressure on foreign exchange. In such a case, reduction in the use of imported material may be set up as an objective and therefore as a criterion of efficiency.

In this connection, it may also be mentioned that measures of efficiency generally will have to be based on the objectives that the managements are asked to pursue. In a planned economy the expected outputs of different industries might be so dovetailed that a shortfall in the output of one enterprise may have serious consequences for the economy as a whole, especially if the dovetailing does not leave much of a margin. In such a case the attainment of the target output may become an extremely important criterion of management efficiency. One possible outcome of such an emphasis may be lowering of quality and for this some sort of quality control will also have to be used as an additional measure of efficiency.

Arbitrary prices may lead to further difficulties in that there might be a conflict between different objectives like attainment of target output and maximisation of profits or minimisation of costs. The possibility of cost reduction or profit maximisation may be different for different products produced by an enterprise and the enterprise might be tempted to produce different products in such quantities as to maximise profits or minimise costs though this may give a different output complex than required for the plan. Leaving aside the wide question of pursuing an appropriate price policy the attainment of physical output targets as laid down by the plan may then become another criterion of efficiency.

V. INTERNAL NORMS

The methods mentioned above, while they will be of some use to the management itself, will mainly be of use to the outside controlling authority. They will indicate the objectives which the controlling authority would like the management to pursue and by which the efficiency of management will be judged. But the task of measurement in management is not only to provide facilities for the controlling authority in its judgment about management efficiency but also to provide criteria by which the higher management of a production unit will be able to check on the operational efficiency of the

operating units under its control and to indicate the necessary correctives so as to improve efficiency.

For this purpose a large number of norms, standards etc. will have to be evolved suited to the needs of the particular production unit. By detailed study of operations norms regarding input-output relations can be laid down for every workshop, various definable parts of a workshop and to a certain extent for small groups of workers or even individual workers. The setting up of such norms is obviously a complicated problem. Technical studies will help in setting up norms regarding the use of raw materials, power, spare parts, etc. Setting up norms of labour utilisation will be a more complicated task. It will require studies regarding the whole process of production, the flow of material, division of operations, the manner and technique of carrying out various production processes etc. It will also require a considerable degree of co-operation from the personnel operating at various levels. The man with the stop-watch has been a hated figure in many industrial units and unless management takes care to see that the workers are enabled to take a positive attitude towards such a study of operations, the study may be difficult to organise. It has now been accepted that it is necessary for the management to take workers into confidence and obtain their consent if labour norms are to be set up and used for improving efficiency.

VI. NEW PROJECTS

An important point to be noted in connec on with an economic system in which economic development is being attempted is that relating to projects for setting up new industrial units or for the expansion of already existing units. The efficiency with which this work is carried out will determine the extent to which the resources of the community are properly utilised and will largely govern the capital liability of the concern over its working period. Unless management during the construction stage is highly efficient the project may be saddled with a heavy capital burden. While it is not possible here to go into the whole problem of measurement of efficiency in the construction stage, one point needs to be mentioned in view of the importance of the question to public industrial enterprises in a country like India. The point is that it is not possible even to expect a high degree of efficiency in the construction of new projects unless some sort of yardstick is made available from the very commencement of a project. Such a yardstick would be provided by a detailed project report giving properly worked-out estimates of total construction costs. This will be of help because it will ensure that all expected expenditure will have to be calculated and therefore the total capital requirements will be known beforehand. This will enable the controlling authority to take the decision regarding the implementation of the project with a clear idea of the finances that it will have to provide. Moreover it will make it possible for the authority to judge fairly clearly whether the management is operating efficiently in the task of construction. Even though there may be some price fluctuations in the intervening period fairly good indices of the major prices involved can be prepared and thus a norm can be provided against which the performance of the management can be judged. Failing this it is not easy either for the controlling government or for the public to judge the efficiency with which construction is carried out.

VII. ORGANISATIONAL PROBLEMS

In using the various methods detailed above for measurement of management a prerequisite is the setting up of proper organisational machinery for setting up norms, for revising them on the basis of experience gained and for judging to what extent the norms have been satisfied in actual operation. One type of organisation will be mainly technological. The suppliers of plant may provide certain criteria about the utilisation of raw materials etc. Technological research by a special organisation in the industry will have further to go into these problems so as to find out better ways of improving technical efficiency and then set up norms for judging whether

these methods are being followed. A production unit will also have to organise a Work Study department for setting up norms of labour utilisation and for conducting studies regarding operations, flow of material etc. The necessity of a Cost Accounting department in production units no longer needs to be emphasized. Financial audit has, it is now accepted, not only the purpose of ensuring that there is no misappropriation of resources but also that of ensuring that there is proper provision for depreciation, that all the costs that should be met from revenue are included in the profit and loss accounts, that there is an appropriate allocation of common costs as between different activities and so on. Obviously this would be principally the task of what is called 'internal audit' and requires internal organisations to be set up by higher management for the purpose of providing it with measures of efficiency.

The outside controlling authority will also have to set up special organizations to enable it to judge efficiency. An important point regarding the approach of the outside controlling authority in judging efficiency is the necessity on its part to lay down in as clear a manner as possible the principal objectives that it wants the management to pursue. That alone will enable management to know the standards by which it will be judged. Moreover, the objectives should not be too many and as far as possible should not conflict. Unless care is taken to see that this is done, the management of the enterprise may find its task confusing. Of course the objectives may vary from time to time according to the circumstances faced by the enterprise or by the economy as a whole. Emphasis may have to be placed on one or the other objective according to special circumstances. For example, foreign exchange may be scarce at one time and considerable emphasis might have to be given to adopting policies which will save foreign exchange, while at another time this factor might not be quite so important.

Once these objectives and the criteria by which efficiency will be broadly judged are laid down it will also be necessary to provide for an organisation which will carry out the task of examining efficiency in the light of these. This judgment will require a proper and sufficient system of reporting. The controlling authority will have to ensure on the one hand that it is not so much bogged down by detailed information that it cannot digest it; on the other hand it will have to see that it gets enough information to be able to judge whether the objectives that are laid down by it are being pursued. It will be necessary especially to ensure that sufficient information about the various distinct parts of a complex undertaking is obtained so that the controlling authority knows about the success not only of the undertaking as a whole but also of its various important parts. The average government department is often not in a position properly to digest such information and point out to the Minister, who is necessarily a non-expert, as to whether the enterprises are functioning efficiently. It might be useful in some cases for the controlling Ministry or department to set up a special expert cell capable of studying the information obtained from the enterprises and preparing reports to enable the government at the highest level to judge in the matter. Perhaps an organisation similar to the Public Undertakings Review Board that exists in France but with much less emphasis than seems to exist there on purely financial and accounting problems will be a useful instrument in an economy where public industrial enterprises are playing an increasing role in economic development.

Lastly it may be pointed out that if the laying down of these various criteria and the general use of measurement of management is to be effective for improving efficiency this cannot be done merely by exhorting management at various levels to attain the objectives laid down. It is true that when definite quantitative criteria exist for judging management efficiency, managements will try to show good performance as they will know that these would provide definite and precise indications of the extent to which they succeed or fail in their management. But unless the controlling authority is to rely entirely on the weapon of removal, which obviously is an instrument to be used rarely and with great care, various types of incentives will have to be

devised and effectively used to emphasise the importance of attaining the objectives laid down. If monetary awards of various types are related to the satisfactory attainment of the norms that are laid down, the norms will come to have a much greater and obvious significance to the personnel operating in the enterprise. If as suggested above norms are laid down not only for the enterprise as a whole but also for various parts of the enterprise including small groups of workers and individual workers wherever that is possible, a clear statement should be provided to the various parties of the criteria by which their efficiency will be judged and fairly regular information should be supplied to them as to their actual attainments. If proper methods are used to publicise norms and actual attainments, this may provide a healthy basis for competition amongst various operating elements in the enterprise and might create greater interest in the fulfilment of the norms.

VIII. INDIAN EXPERIENCE*

Profitability

As regards the use of the criterion of profitability in India the problem bristles with difficulties. A statement given in Appendix I shows the position in this respect regarding some industrial enterprises in the public sector but the profits or losses shown there do not indicate very much the efficiency or otherwise of management. The paid-up capital, for example, does not always indicate the value of capital totally invested in the concern. In certain concerns loans made by Government constitute a large part of the total investment made in the enterprise. On the other hand, certain concerns like Sindri have been able to plough back substantial amounts of profits and reserves into their business. The possibility that arises in the case of new projects of over-capitalisation due to unnecessary and infructuous expenditure in the construction stage is attempted to be eliminated by including only a part of the preliminary expenditure and the expenses during the construction period in the capital of the concerns. The remaining part is generally written off over a period of time. In the case of the DDT factory at Delhi, for example, it has been decided that only 50% of the expenses during the construction period and 50% of the preliminary expenses should be capitalised, the balance being written off in 3 years. In the case of Sindri Fertilizers, it was decided that out of Rs. 23 crores spent on the project for completing its first phase, about Rs. 6 crores should be written off and only Rs. 17 crores capitalised. Such a method would obviously be helpful in keeping a better relationship between the paid-up capital and the actual value of capital assets.

The other difficulty mentioned earlier, viz., the differences in the composition of capital as between different enterprises, however remains. The proportion of capital spent on amenities like housing and various township facilities varies considerably from enterprise to enterprise, in some cases like Chittaranjan it being as high as over 40% of the total capital at charge. No clear principles have been laid down to indicate that this part of investment should be treated differently from productive investment when accounts are presented and therefore a comparison based on the relationship of profit made to capital investment is bound to give a wrong picture.

As mentioned above, the second element that would determine the profitability of an enterprise would be the price policy. Here also we find that no clear principles or policies have been laid down for any enterprise and no general statement about price policy is available. "National Interest" is supposed to guide the price policy and when determining prices, the prices of imported products, the interest and capacity to pay of the consumer, the

*It should be mentioned that information about various aspects of 'Measurement of Management' was not available about all public enterprises in the manufacturing field. Even for the enterprises for which some information became available, it was confined to some aspects only. For some enterprises, the information available was for 1957-58 only. These limitations should be noted and the data provided should be taken as only illustrative.

general requirements of the economic system, all these are taken into account and an ad hoc decision is arrived at. Many industrial enterprises in the public sector sell the bulk of their products to some Government agency and the price policy there is based on a "cost plus" basis.* In the case of the Hindustan Shipyard the Government has decided to subsidise the concern to the extent of the difference between its cost of production and the price at which a similar ship can be purchased from abroad. In the case of the DDT factory at Delhi, under agreement with the United Nations who supplied the plant, the product is to be sold on a no-profit-no-loss basis. All this indicates that the prices of the products produced by many important industrial enterprises in the public sector are a matter of deliberate policy and are not automatically determined in the market. Therefore profitability cannot be considered to be a very useful criterion in the case of these enterprises.

IX. COST REDUCTION

For the overall cost of production, in few cases have any general norms been laid down from the beginning of the projects. Of course a starting point of comparison is provided by the CIF price of the imported product but then this comparison is not always very useful because the production conditions in India are different in many respects from those in other countries. Not only considerations such as its being a new industry and, therefore, in need of building up technical knowledge and skill but also other special peculiarities are responsible for this. One factor that is important here is that an enterprise in India like the Indian Telephone Industries or the Chittaranjan Locomotive Works has to produce on its own a large number of components which similar foreign concerns purchase from other suppliers who in turn can produce them more economically as they fall within their specialised fields of production. But in India as such related enterprises are not found to be already developed and especially because of the necessity to reduce the import content of production the basic concerns have to produce most of their components themselves and this can mean higher costs. Even then a comparison with CIF import prices or foreign prices does provide a somewhat useful basis for judging the efficiency of management and is extensively used. Such comparisons show that some of the enterprises are not doing badly; *e.g.*, the prices of locomotives, machine tools, fertilisers, telephones and telephone equipment, DDT and antibiotics produced by the enterprises in the public sector in India compare quite well with the CIF import prices or the prices prevalent in foreign countries.

X. INTERNAL MEASURES

Cost accounting is now a common feature in most of the well-established manufacturing units in the public sector and it is being put on a more systematic footing so as to provide proper measures for finding out sources of excess costs and reducing inefficiency. (See Appendix III.) Standards regarding the use of various inputs, especially raw materials, are being set up for use in various units. In some concerns the norms provided by the plant designers are used as the basis for determining efficient utilisation of raw materials as in the case of the DDT factory. In other cases studies carried out in the enterprise over a period of time provide the basis for laying down norms of raw materials required for various operations. Work Study is being undertaken in most of the enterprises. Here again as in the case of the Indian Telephone Industries sometimes the norms provided by foreign technical consultants modified for Indian conditions are used in the beginning for providing a rough basis for comparison and then gradually revised

*"The prices of equipment manufactured in the BEL (Bharat Electronics Limited) are fixed on the basis of actual cost of materials and labour and adjusted overheads plus 10% for profit. To arrive at the overhead rates the expenditure on the factory is estimated as to what it would be when the factory reaches full production". 30th Report of the Estimates Committee of the Lok Sabha, December 1956, page 44. Also see Appendix II.

norms are set up on the basis of a detailed study of operations. Industrial Engineering Divisions have been set up and labour norms for most productive processes laid down in many well-established industrial concerns like the Hindustan Aircraft, Chittaranjan Locomotive, Perambur Integral Coach, Indian Telephone etc. It should also be mentioned that when these norms are being built up and production tasks set up on this basis, in all cases this has been done with the knowledge and co-operation of workers and their representatives. In the case of certain types of enterprises, especially automatically working chemical plants, it is pointed out that establishment of labour norms is not possible. Even then, for example, in Hindustan Antibiotics some norms regarding labour costs in financial terms have been laid down and are used for checking labour utilisation.* In other cases, as at Sindri, this is not done. While it is true that laying down norms regarding labour input in such plants is difficult, the lack of such noms may lead to waste. In Sindri Fertilisers, for example, in 1957 out of about 8,000 total employees, over 5,500 were "non-technical, non-supervisory", that is unskilled 'mazdoor' type workers. Most observers admit that for an automatic chemical plant like Sindri this is a very high proportion. This is not to say that it is the failure to lay down norms that has led to this over-employment; but the lack of such norms at least makes it difficult to ensure that management faces the problem of efficiency squarely. Sometimes other types of difficulties stand in the way of setting up labour norms. An enterprise might have worked for too short a time to be able to obtain the necessary experience on the basis of which norms could be laid down. Moreover if the enterprise is not able to organise the production of its various products on a sufficiently large scale to enable standardisation of operations, if there are too many designs or if the work is of what is called the 'jobbing' type, the setting up of norms may be difficult though even in such cases it could not be considered impossible. In the case of Hindustan Shipyard the large number of designs was pointed out as one of the reasons why standard labour norms could not be set up. A further reason given was that foreign norms could not be applied while Indian experience was not still enough to build up such norms. At the National Instruments Factory also 'jobbing' is mentioned as the main difficulty in laying down such norms. Increasing attempt is now being made in such enterprises to organise production in a better way and to standardise designs and products so as to allow the use of better methods of management. Quality control has been instituted in many units as for example in Chittaranjan, Hindustan Aircraft and Hindustan Machine Tools to ensure that greater speeding up of work resulting from the laying down of labour norms does not mean lower quality of production.

As regards the various other criteria mentioned earlier we find that no precise objectives or norms have been laid down in India. But certain general policies are indicated, as for example the necessity to reduce the imported component of any product as much as possible. To attain this objective a plan for the gradual reduction in the proportion of imported components is generally laid down in every project and the actual performance is checked against this plan. With the increasing necessity to maximise output so as to help the general process of economic development suitable emphasis is given, especially in the public sector enterprises, to the attainment of maximum production from a given plant and so the criterion of actual output against capacity or target output is commonly used. As the figures given in Appendix V show, in the case of many enterprises the performance regarding output is good once the enterprises have got over their teething troubles.

*In the original project, for an output of 4 lakh mega-units, Rs. 72,000 was estimated to be the monthly salary and wage bill. Now the production has increased to 29 lakh mega-units but the labour and wage bill has gone up only to Rs 1,46,000 (that is Rs. 22,000 for producing 4 lakh mega-units). Similar reductions have been obtained in the costs of raw materials, maintenance, services, etc. For labour norms based on original project at the Hindustan Machine Tools, see Appendix IV.

XI. NEW PROJECTS

Regarding capital expenditure on new industrial projects or expansion of the existing projects the experience in India has not been very enlightening. In many cases the actual expenditure has considerably exceeded the original estimates (See Appendices VI & VII). The reasons generally are that the original estimates are rather hastily prepared. No detailed estimates are made as a part of the project report before the project is accepted and implementation begun. A number of quite important items are either completely ignored or inadequately provided for in the estimates. This means that the actual expenditure has no close relation with the projected expenditure. It is true that this does not necessarily indicate waste of resources but such defective estimating does mean that there are no definite limits of expenditure within which the management is expected to keep and therefore efficiency in construction suffers. Of course there are a few cases where the actuals compare quite well with the projected estimates. This seems to happen especially in the case of enterprises for which the responsible government organisation had considerable earlier experience as was the case regarding the Chittaranjan Locomotive Works.

XII. PROBLEMS OF ORGANISATION

As mentioned earlier it is necessary to build up proper organisational machinery, both inside the enterprise and outside in the controlling authority, to make appropriate use of the various measures that are devised and thus ensure that the data made available are used in good time for improving efficiency. We find that in India most of the industrial enterprises in the public sector are building up departments for cost accounting, work study, technological research and so on to enable them to set up proper norms in various respects and to go on revising them as further experience is gained and knowledge obtained. There is an increasing practice of information being made available to the operating staff as well as the supervisory and managerial staff at various levels regularly and with as short a time-lag as possible so that steps can be taken to correct tendencies towards inefficiency.* Of course some of the state enterprises which have had a long history of the routine departmental type management may not always make sufficient use of whatever information and data are collected. It seems that such was the situation in the Government of India Railway Collieries till a few years back (See Appendix IX). But there is no doubt that things are fast improving in this respect in the last few years. For example, in Hindustan Antibiotics, norms are laid down every month for each manufacturing department and these as well as the actual performance are communicated to the employees. In Hindustan Machine Tools the targets of output are fixed for direct workers, individual workshops and for the whole factory and the actual performance each month is specially announced. In the Indian Telephone Industries the industrial engineering division studies and lays down output per worker and per machine. The methods department looks after the correct determination and requirements of raw materials and their utilisation. Regular supervisory and accounting checks are exercised regarding the utilisation of various inputs.

Further there is an increasing tendency to use the norms and measures that are laid down for the purpose of providing incentives at least to the personnel directly engaged on production. An incentive bonus system of payment has now been set up in many concerns like Hindustan Aircraft, Indian Telephone Industries, Hindustan Machine Tools, Perambur Coach Factory, etc. Incentive bonus is generally paid to direct workers on the basis of individual performance and to the indirect or ancillary workers and sometimes to the lower supervisory staff on the basis of group performance. Even in concerns like Hindustan Antibiotics where norms for individuals cannot be laid down an attempt is being made to devise some criteria

*For example, regarding the use of cost control documents at the Hindustan Aircraft Ltd., see Appendix VIII.

by which group performance can be judged. It is laid down as a general policy that awards or bonuses to all staff receiving less than Rs. 500 per month should be increasingly instituted based on some measure of productivity.* But except where an incentive bonus scheme based on individual or group performance has been instituted, the annual bonus though theoretically based on productivity is in reality decided on a purely *ad hoc* basis.

As regards the organisation external to the enterprise making use of the measurement of management-efficiency the principal authority doing it is the controlling government. Regular progress reports are sent by all the enterprises to the controlling ministries and as these reports contain considerable statistical data showing the inputs as well as outputs in real as well as financial terms, the ministries can use this material for measuring the state of efficiency. But not all ministries have qualified staff to be able to make full use of such data. There has yet been no attempt to build up expert cells either in individual ministries or in the Cabinet Secretariat for the purpose of studying these various reports and applying appropriate norms to ensure that the managements are generally operating in an efficient way. Of course one difficulty in this is that the number of persons competent to do this work is small and priority naturally has to be given to putting such competent people on actual operational jobs.

Another important external authority is that of audit. All the State enterprises are now under the ultimate audit authority of the Comptroller and Auditor-General of India, even though only in some cases does this agency actually exercise its right to carry out audit. While there has been considerable discussion about audit in the case of business type enterprises having to take a different approach than audit of normal governmental agencies, in practice it does not seem that there has been much change. The public audit authority in India still largely concerns itself with checking irregularities in expenditure rather than with what is called performance audit. While one Comptroller and Auditor-General has expressed himself to be in favour of building up a tradition of performance audit, in practice this has not gone very far; and many people wonder whether with a long historical tradition of the present type of audit, it will be possible for this organisation to build up an entirely new outlook and method.

The Estimates Committee of Parliament has been exercising the function of examining in detail various aspects of the working of public enterprises in India, even when these are established as public corporations or companies. As there has been no other independent agency set up for the purpose of examining the functioning of these enterprises these enquiries conducted by the Estimates Committee have proved to be of considerable value and their reports have served a very valuable purpose. In many cases these reports have been the principal mode of getting detailed information about the working of public enterprises, since the annual reports and financial statements are not always very informative. Moreover in some cases the Committee has very scientifically examined the efficiency with which the concerns are operating. In its report on the Indian Telephone Industries, for example, it put together various bits of useful information and tried to apply proper criteria to judge the efficiency of performance.* *

One may thus come to the conclusion that while it took some time for those in charge of public enterprises in India to come to realise the significance of measurement in management, there has been over the last few years an increasing acceptance of the importance of these methods in the management of public enterprises.

---

*For a description of the principal aspects of the incentive bonus scheme used in a major industrial project, namely, Chittaranjan Locomotive Works, see Appendix X.

* *For details of the measures applied in this case, see Appendix XI.

LIST OF APPENDICES

Appendix I	Profitability of Industrial Enterprises in Public Sector in India.
Appendix II	Pricing Policies in Public Undertakings.
Appendix III	(A) A Note on the system of costing in Bharat Electronics Ltd. (B) Cost Accounting System used in Railway Integral Coach Factory, Perambur.
Appendix IV	Labour Norms—Hindustan Machine Tools Ltd.
Appendix V	Capacity/Target and Actual Output (A to D).
Appendix VI	Capital Cost—Estimates and Actuals (A to F).
Appendix VII	Extract from the 33rd Report of the Estimates Committee of the Second Lok Sabha on Hindustan Steel Ltd.
Appendix VIII	A note on the Cost Control Documents used at the Hindustan Aircraft Ltd.
Appendix IX	Extracts from the Report of the Enquiry Committee on the Working of the Government of India Railway Collieries, 1951.
Appendix X	Principal Points about the Incentive Bonus Scheme used at the Chittaranjan Locomotive Works.
Appendix XI	Extracts from the 11th Report of the Second Lok Sabha (1957-58) on the Indian Telephone Industries (P) Ltd. (A to H)

APPENDIX I

PROFITABILITY OF INDUSTRIAL ENTERPRISES IN PUBLIC SECTOR IN INDIA

Sl. No.	*Name of Enterprise*	*Capital paid up*	*Net Profit Made* *1955-56*	*1956-57* (Figures in Rs.)	*1957-58*	*Remarks*
1.	Hindustan Antibiotics Ltd.	2,45,83,000	—8,02,899	57,607	33,43,052	
2.	Hindustan Cables Ltd.	1,25,00,000	6,06,569	9,93,434	10,10,038	
3.	Hindustan Insecticides Ltd.	97,00,000	2,976	3,83,187	5,61,691	
4.	Hindustan Machine Tools Ltd.	3,90,00,000	..	3,99,694	21,62,327	
5.	Nahan Foundry Ltd.	40,00,000	36,186	37,651	70,000	
6.	Sindri Fertilizers & Chemicals Ltd.	17,00,00,000	1,63,63,342	2,04,71,844	1,42,81,847	
7.	Bharat Electronics Ltd.	4,81,25,000	—4,07,291	—21,836	—3,77,198	
8.	Hindustan Aircraft Ltd.	10,30,00,000	28,02,426	32,28,645	34,16,293	
9.	Hindustan Shipyard Ltd.	5,02,90,000	—78,111	—3,69,081	—4,75,353	
10.	Indian Telephone Industries Ltd.	4,00,00,000	25,96,094	23,57,819	24,69,015	
11.	National Coal Dev. Corporation	8,82,76,000	..	25,92,083	30,70,499	(Gross Profits)

Source : "Statement of Financial Working of Major Industrial and Commercial Public Enterprises", Cabinet Secretariat, New Delhi, 1959.

APPENDIX II

PRICING POLICIES IN PUBLIC UNDERTAKINGS

(Extract from the Report of the Taxation Enquiry Commission, 1953-54, Vol. I, pp. 194-195.)

The following concise account gives some indication of the pricing policies followed by other public enterprises in the Central sphere that are already in operation and likely to be adopted by others which are shortly expected to commence production. The price of ammonium sulphate (Sindri Fertilisers) is determined after taking into consideration the costs of production, price trends in foreign markets and the purchasing power of consumers. The price of coal obtained from State-owned collieries is fixed under the Colliery Control Order, 1945, on the basis of cost of production plus a reasonable margin of profit. The price of salt produced by three commercial concerns (Sambhar, Kharaghoda and Mandi) is fixed on a "no profit no loss" basis, although a proposal to cover interest on capital in fixing the price of salt is under consideration of Government. Ocean-going ships are sold at prices based on the U.K. parity, *i.e.*, the price which would be payable if the ships had been constructed in shipyards in the United Kingdom. However, in order to enable Indian shipping companies to purchase ships built in the Visakhapatnam Shipyard at prices payable for similar ships constructed in the United Kingdom, Government have decided, as a temporary measure, through a subsidy, to meet, within certain limits, the difference between the actual cost of construction and the prescribed sale price. During 1952-53, a sum of over Rs. 95 lakhs was adjusted in this manner; the revised estimate for 1953-54 is Rs. 60 lakhs. The price of penicillin is to be fixed after taking into consideration the cost of production (including provision for interest and depreciation charges) and market prices of similar products manufactured by foreign concerns. Generally, Government have accepted the principle of State undertakings fixing prices, so far as possible, on commercial principles...

The pricing policies of commercial and industrial undertakings of State Governments vary, and are not always based on strict commercial principles. In the case of steel produced by the Bhadravati Works of the Mysore Government, in accordance with the general policy of the Government of India, a selling price is fixed by the Government to protect consumer interests and at the same time there is a retention price to ensure a reasonable return to the units engaged in the industry. The industrial concerns owned by the Travancore-Cochin and Mysore Governments generally fix prices on commercial lines; the prices of goods are fixed on the basis of the cost of production (including depreciation and interest charges) plus a fair margin of profit after taking into consideration the current market prices of similar products.

APPENDIX III

(A) A NOTE ON THE SYSTEM OF COSTING IN BHARAT ELECTRONICS LTD.

[Reproduced from the 39th Report (1956-57) of the Estimates Committee of the Lok Sabha (Dec. 1956)]

Appendix IX

A costing system has been introduced in B.E.L. as from Ist April, 1956.

2. The intention is to make use of the costing system for the following purposes :

(*a*) To find out the cost of the different products by batches with a view to find out the cost per unit, of each product.

(*b*) To ascertain the cost of each batch by components, sub-assemblies and assemblies.

(*c*) To exercise control over the expenses.

3. To achieve item (*a*) and (*b*) above, all manufacturing programmes in the factory are undertaken under specific Projects Order, Work Orders and Sub-Work Orders.

4. *Elements of Cost :* Following the usual procedure, the cost of manufacture is split up into the following elements :

(*a*) Direct Labour;

(*b*) Direct Materials;

(*c*) Direct Expenses;

(*d*) Overheads.

5. *Direct Labour :* In order to facilitate correct booking of time to jobs, Daily Time Tickets are introduced for all skilled workers in the Production Shops. The time booked against jobs is reconciled monthly against time paid as recorded by Time Recording Clocks.

6. *Direct Materials :* The materials required are drawn against Stores Requisitions on which the relative work orders are pre-written. All stores requisitions are analysed according to Work Orders for all direct materials, and by cost centres for all indirect materials monthly.

7. *Direct Expenses :* All direct expenses are analysed according to Work Orders every month.

8. *Overheads :* As in all big factories, overhead expenses form a large percentage of the total cost of production. Special attention is, therefore, being given for the collection, distribution and allocation of overhead expenses.

The overheads are first collected under standard heads of accounts.

NOTES

For equitable distribution and control of overhead expenses, the factory is divided into productive and non-productive departments, which are termed as Cost Centres.

The expenses collected are distributed every month to the different Cost Centres on an actual basis to the extent possible, and the rest on an estimated basis as per accepted costing principles. For example, salaries and wages, overtime, P.F. contribution, idle time, consumption of store, electric supply, etc., are distributed on an actual basis, while depreciation is distributed according to the value of various assets in each Cost Centre.

The entire overhead expenditure of the factory is thus collected under productive and non-productive cost centres. Out of the cost collected under non-productive cost centres, the expenditure on service departments such as mechanical maintenance, electrical maintenance, transport, etc., is redistributed to the other cost centres (productive and non-productive) on the basis of services rendered.

The overhead expenditure of the factory is classified under four main groups :

(*a*) Shop Overheads;
(*b*) Factory Overheads;
(*c*) Material Overheads; and
(*d*) Administrative Overheads.

The total expenditure under each productive cost centre represents the shop overhead pertaining to that shop. Similarly, the expenditure on Factory, Administrative and stores overheads, is separately available under the relevant cost centres.

9. *Allocation of Overheads :* The shop overhead expenditure pertaining to each shop is distributed as a percentage of the direct labour charges and booked to the jobs undertaken in that shop. This means that there is a separately overhead rate for each shop. The factory and administrative overheads are worked out as percentages of the entire direct labour of the factory and then distributed to the jobs undertaken in the factory.

The material overheads, being representative of the services rendered by the stores, are levied as a percentage on the value of material issues.

It is the intention to gradually split the shop overheads into two divisions, viz., machine overheads and labour overheads, to facilitate the most equitable distribution of overheads.

The overheads will be applied on a pre-determined basis and will be subject to periodic revisions on the basis of actual cost and under- or over-absorbed overheads.

(B) *Cost Accounting System used in Railway Integral Coach Factory, Perambur*

COST ACCOUNTING

The system of costing devised for the Integral Coach Factory is meant for the following main types of manufactures :

(*a*) Manufacture of coaches.
(*b*) Manufacture of stock items.

The manufacture of coaches under item (*a*) above is undertaken in batches convenient from the point of view of production control and manufacture in the shops. All expenditure on labour, material and overheads pertaining to a particular batch is separately collected under different groups, sub-groups and stages of manufacture. For this purpose, a coach has been divided into 10 groups, each group being sub-divided into sub-groups, the total number of sub-groups being 60. Each sub-group becomes a cost unit

and a medium of cost control. Under each sub-group, the cost is collected under the following stages :

(*i*) Manufacture of details;
(*ii*) Manufacture of sub-assemblies;
(*iii*) Manufacture of major assemblies; and
(*iv*) Installation.

In respect of stock items, the orders are placed on the shops in economic batch quantities and the costs are collected and ascertained as for each component manufactured.

While the expenditure under direct wages and direct stores is collected straightaway under the different stages in each sub-group, there remains indirect expenditure under various categories, forming major part of the total expenditure in the Integral Coach Factory as in any other modern factory of its kind, which cannot be so directly allocated and means have to be adopted for their allocation to the different jobs, corresponding to the benefits received or utilisation made of the different indirect items of expenditure in a particular stage of a particular sub-group. Indirect expenses have been grouped under the following :

(*i*) Factory overheads;
(*ii*) Administrative overheads; and
(*iii*) Stores overheads.

The Factory overheads comprise the indirect expenses of the shops and a share of the various Departments, *i.e.*, Mill wright, Tool Room, etc. The Administrative overheads comprise the indirect expenses of the Integral Coach Factory, *e.g.*, Chief Administrative Officer's Office, Accounts Office, etc. The Stores overheads comprise the indirect expenses of the Stores department.

In the beginning of the financial year, estimates are prepared for a Factory and Administrative overheads to be incurred in the different shops together with the direct wages of these shops. A rate for Factory overhead and another for Administrative overhead are thus arrived at for different shops, which are applied to the direct wages incurred on a particular job in a particular shop in order to arrive at the total cost of the job in the particular shop. Added to the above is the Stores overhead which is calculated on the basis of the estimates of expenditure of the Stores Department and value of direct stores to be issued for that period.

Every month a review is made of the total overheads incurred shop by shop under important items of expenditure, *e.g.*, indirect labour, indirect stores, etc., and it is examined whether the actual expenditure has kept reasonably close in line with that to the estimate. If any substantial difference is noticed over a period, a revision of overheads rates is undertaken.

A special feature of control is that the utilisation of the quantity of stores and the time spent on a batch of coaches are to be watched with reference to the estimates thereof concurrently with the progress of manufacture.

The cost under labour, material and overheads is collected stage-wise every month under each sub-group until the batch of coaches is completed, and the figures are subjected to further cost audit before the cost is finalized.

In order that costing results may be available simultaneously with or soon after the production is complete and also to obtain different sets of figures in diverse ways from the same accounting documents in a short spell of time to cope with the increasing demands made on the accounts department for information, following the current thoughts in industrial management, mechanical accounting devices had necessarily to be adopted. After due consideration, the Hollrith system has been adopted in this Administration. A set of equipments consisting of punches, verifiers, a sortor and a tabulator have been installed, and are working.

Various aspects of cost control are discussed in the monthly co-ordination meetings of the Works Officers, when ways and means of reducing the cost of manufacture are considered.

APPENDIX IV

LABOUR NORMS

Hindustan Machine Tools Ltd.

	As per the Project Report 1952—for 400 lathes p.a. (Production Shops only)	*Existing norms for 1000 machines p.a. (Production shops only)*	*Existing strength (20.5.1959) (Production shops only)*
Administrative	19	19	12
Direct Productive	287	839	1160
Indirect Productive	110	210	235
Miscellaneous	86	101	184
	502	1169	1581

APPENDIX V

CAPACITY/TARGET AND ACTUAL OUTPUT

(A) INTEGRAL COACH FACTORY, PERAMBUR

	Oct.-Sept. 1955-56	Oct.-Sept. 1956-57	Oct.-Sept. 1957-58	Oct.-Sept. 1958-59	1959-60
Target Original	20	100	200	300	350
Revised	40	120	240	350	350
Actual Output	43	150	308	400 (anticipated)	..

(B) HINDUSTAN ANTIBIOTICS LIMITED

Originally the Plant was expected to produce 9.0 m.m.u. of finished Penicillin per year. This target was revised to 20.0 m.m.u. and again recently to 25.0 m.m.u. per year. Actual production was as follows :

Production per year	*Quantity of finished Penicillin in million megaunits (m.m.u.)*
1955-56	0.62
1956-57	9.89
1957-58	21.58
1958-59	25.20

(C) HINDUSTAN MACHINE TOOLS (P) LTD.

	Original Target (1952)	*Revised Target* (1956)	*Actual*
1954-55	..	..	2
1955-56	..	..	11
1956-57	57	135	135
1957-58	131	400	402
1958-59	238	600	552

(D) HINDUSTAN INSECTICIDES LIMITED

Capacity of Output

Original	700	tons	Tech.	D.D.T. p.a.
After expansion	1400	tons	Tech.	D.D.T. p.a.

Actual Output

		Tech. D.D.T.	*Form D.D.T.*
1955	..	170.43	152.57
1956	..	492.50	817.81
1957	..	623.13	647.05
1958	..	1130.44	1029.08

APPENDIX VI

(A) CAPITAL COST—ESTIMATES AND ACTUALS—SINDRI FERTILISERS & CHEMICALS LTD.

Description of Assets	*Technical Mission's Estimate*	*Description of Assets*	*Position as on 31-3-54*
1. *Production Plant*			
(*a*) Ammonia Plant	2,62,50,000	1. Land	63,85,600
(*b*) Sulphate Plant	2,10,50,000	2. Buildings	4,83,24,933
(*c*) Product Storage and Packing	50,50,000	3. Plant, Machinery, Equipment etc.	14,68,59,502
2. *Service Plant and Equipment*		4. Electrical Installations	44,93,304
(*a*) Boiler and Power Plant	1,98,50,000	5. Railway Sidings	50,14,198
(*b*) Water Supply & Cooling Water System	80,00,000	6. Water System aad Sanitation	1,46,19,764
(*c*) Sundry Services	92,50,000	7. Furniture Fixture and Office Appliances	9,64,652
(*d*) Laboratories, Workshops, Stores etc.	15,00,000	8. Roads, Culverts, Walls and Fences	16,67,133
(*e*) Railway and Roads	20,00,000		
(*f*) Land Purchase Surveys and Drainage	6,00,000		
3. Stock of Materials and Starting Expenses	50,00,000		
4. Housing Estate including Land Purchase and Hospital	67,00,000		
	10,53,00,000		22,82,99,086

(B) CAPITAL COST—ESTIMATES AND ACTUALS—INTEGRAL COACH FACTORY, PERAMBUR

Particulars	*Preliminary Estimate (13.2.52)*	*Revised Estimate (17.7.54)*	*Actual Expdr. as on (31.1.58)*
1. Preliminary Expenses	3,94,183	3,94,183	98,348
2. Land	4,89,156	5,79,670	6,14,670
3. Structural Engineering Works	2,12,08,329	2,48,79,504	2,42,89,503
4. Equipment (including Elect. & Mech.)	1,11,12,000	3,94,20,102	4,00,04,533
5. General Charges	47,20,240	82,41,764	70,22,924
6. Miscellaneous	..	..	50,000
	3,79,23,908	7,35,15,223	7,20,79,980

CAPITAL COST—ESTIMATES AND ACTUALS—HINDUSTAN ANTIBIOTICS LTD.

Capital Cost as estimated on 24.7.51		*Remarks*
1. Land and Buildings	55,88,000	*Reasons for rise in cost :*
2. Services	8,70,000	1. Increase in cost of capital goods.
3. Erection Costs	20,00,000	2. Increase in cost of building materials, cement and steel.
4. Residences	24,55,000	3. Increase in wages.
5. Working Capital [for raw material and operating Expenses (say for 4 months)]	20,00,000	4. Improvement in the actual implementation of project based on latest developments.
6. Cost of Imported equipment Contributed by UNICEF and technical Assistance by UNTAA	57,12,000	
	1.86,25,000	
Final Capital Cost as on 31.3.55		
1. Land and Buildings	53,28,000	
2. Plant and Machinery including cost of UNICEF equipment and UNTAA training Expenses	88,44,000	
3. Residences	37,96,000	
4. Miscellaneous	3,71,000	
5. Working Capita	20,00,000	
	2.03,39,000	

(D) CAPITAL COST—ESTIMATES AND ACTUALS—HINDUSTAN INSECTICIDES PRIVATE LTD., ALWAYE

Particulars	*Original Estimate (1957)*	*Revised Estimate (up to 31.3.1960)*	*Remarks*
1. Land and Buildings	6,74,000	12,81,000	The original estimate was only a tentative one and hence did not include many items
2. Plant and Machinery	55,03,000	51,08,000	
3. Preliminary Expenses	1,20,000	2,41,000	
4. Residential Colony	13,03,000	13,29,000	
5. Working Capital	3,00,000	12,83,000	The revised estimate covers expenditure actually incurred up to 31.3.59 plus that expected to be incurred till 31.3.1960
	79,00,000	92,42,000	

(E) CAPITAL COST—ESTIMATES & ACTUALS—HINDUSTAN INSECTICIDES (P) LTD., NEW DELHI

Particulars	*Original Estimate April 1952*	*Revised Estimate Aug. 1954*	*Actual*	*Remarks*
1. Leasehold Land	..	..	2,71,679	The increase in estimates is due to the fact that original estimate was purely tentative and did not include many items. Also the cost structure changed and hence the estimated values increased.
2. Land and Buildings	4.00,000	..	..	
3. Factory Building	..	7,15,500	8,84,234	
4. Office Building	..	1,63,581	2,19,499	
5. Chlorine House, Compound Walls, Substation etc.	..	39,714	..	
6. Housing	..	3,36,000	..	
7. Plant, Machinery and Other equipment	7,16,000	10,35,000	12,50,479	
8. Installation Cost	2,70,000	..	..	
9. Contingencies	1,59,000	66,534	..	
	15,45,000	23,56,329	26,25,891	

These figures do not include UNICEF free gift of Plant and machinery amounting to Rs. 11,90,000 under original Plan and Rs. 13,09,550 under revised scheme.

(F) CAPITAL COST—ESTIMATES AND ACTUALS—CHITTARANJAN LOCOMOTIVE WORKS

Description of Assets	*Original Abstract Estimates 24.6.1948*	*Revised Detailed Estimate 27.1.1950*	*Final Expenditure Sept. 1957*
1. Preliminary Expenses	30,000	30,000	60,000
2. Land	52,50,000	52,50,000	27,92,000
3. Structural Engineering Works	6,58,17,000	7,41,69,000	7,59,12,000
4. Equipment	4,79,14,000	4,18,19,000	4,36,76,000
5. General Charges	1,47,25,000	2,03,38,000	2,24,41,000
6. Contingencies	68,43,000	72,09,000	..
	14,05,79,000	14,88,15,000	14,48,81,000

APPENDIX VII

EXTRACT FROM THE 33rd REPORT OF THE ESTIMATES COMMITTEE OF THE SECOND LOK SABHA ON HINDUSTAN STEEL LTD.

(Pages 50-56)

The original estimates for the three ten lakh ton ingot steel plants, on the basis of which provision was made in the Second Five Year Plan were:

	Total Estimates	*Component of Foreign Exchange*
	(Rs. in crores)	
Rourkela	128	89
Bhilai	110	67.5
Durgapur	115	72
	353	228.5

The revised estimates which were given to the Lok Sabha by the Minister for Steel, Mines, and Fuel during the debate, on the demand for grants on the 13th August, 1957 were:

	Total Estimate	*Component of Foreign Exchange*
	(Rs. in crores)	
Rourkela	170	122
Bhilai	131	78
Durgapur	138	92
Total	439	292*

The above estimates do not include any provision for likely increases in cost on account of escalation clauses, as also the cost of the following:

1. Townships;
2. Ore Mines and Quarries;
3. Coal Washeries;

*The committee were informed on 7-1-59 that the figure of Rs. 292 crores did not include the foreign exchange component of the cost of ancillaries which would amount to Rs. 38 crores.

4. Fees to Consultants;
5. Fertilizer Plant at Rourkela;
6. Land;
7. Prospecting and designing;
8. Development of sources of water supply;
9. Power supply facilities up to the perimeter of the Plant;
10. Personnel required for operation including the cost of training;
11. Railway works outside the perimeter of the Plant;
12. Personnel employed, directly by the project;
13. Customs Duty;
14. Expenditure on medical services; and
15. Office and such other ancillary expenditure.

The estimates for these items were not mentioned by the Minister, but a rough estimate was given to the Committee amounting to about Rs. 120 crores made up as follows :

	Rs. in crores
Three Townships	42.0
Two iron ore mines, two limestone quarries, and one dolomite quarry	13.5
Fees to German, Russian and British Consultants	9.25
Water Supply arrangements	4.5
Training Schemes	1.5
Cost of Soviet Staff employed direct by the Project	4.5
Other expenditure on prospecting, electrical works, railway works outside the perimeter, cost of project staff and establishment, office expenditure, customs duty etc.	45.0
Total	120.25

Note : It is observed that the cost of the Fertiliser Plant at Rourkela, which is not included in the above list, would, according to the Appraisal and Prospects of the Second Five Year Plan, amount to about Rs. 16 crores.

The Committee do not appreciate why estimates of important items like townships, iron ore mines, and quarries, electrical works, railway works, etc. were not originally indicated to Parliament. They are particularly surprised to find that even the fees of Consultants were not included in the original estimates.

It was explained to the Committee that it was difficult to estimate the expenditure in all these cases. Even if that were so, the estimates on some broad lines could have been indicated, or the items could have been mentioned with a note that charges on their account would add to the estimates finally, to enable the Parliament to have a complete picture.

The Committee suggest that a comprehensive statement showing the estimates of all the items of expenditure connected with the projects should be prepared and placed before Parliament at an early date.

The section-wise break-up of the estimates is given in Appendix XVI (not reproduced here). The Committee were told that the sections under which the estimates of the different projects are indicated are not at all cases comparable. They feel that it is necessary for proper comparison of the estimates and the actual costs of the three projects that the estimates should be analysed on a uniform basis. The Committee are aware that although

*The break-up of the cost of ancillaries, project-wise is given in Appendix XV, 1861 (Aii) LS-5. (Not reproduced here.)

the capacity expressed in terms of crude steel is about the same in the three plants *viz.*, ten lakh tons, the plants differ considerably otherwise but they feel that an analysis could be prepared, broadly speaking, on a comparable basis after making allowance for such differences. In this connection, reference is also invited to para 215 of the Seventh Report of the Public Accounts Committee (Second Lok Sabha).

In this connection, the Committee also feel that in view of the expansion of the iron and steel plants in the private sector in the country, it would facilitate an assessment of the cost of the public sector project if the expenditure incurred on the former especially on similar and comparable units could be ascertained and included in the analysis of costs suggested in the earlier paragraph.

INCREASE IN THE ESTIMATES

It is observed that, within a short period, the estimates of the steel projects went up from Rs. 353 crores to Rs. 439 crores, *i.e.*, to the extent of about 25% while the foreign exchange component increased by about 28% excluding Rs. 38 crores, the estimated foreign exchange component of the cost of ancillaries. This increase was explained by the representative of the Ministry to be generally due to :

(*a*) Additions and improvements made to the project reports;

(*b*) Purchase abroad of structural steelworks, refractories and such stores, which it was originally thought could be procured from India. Prices abroad of these items are generally higher than in India.

(*c*) Under-estimation by the consultants and increases of prices and wages in Europe between the time of estimation and the time when contracts were concluded. This applies to Rourkela: and

(*d*) Under-estimation by the Indian Steelworks Construction Company of cost of civil engineering and erection charges in India. This applies to Durgapur Plant only.

The increases, as classified by the Ministry, under the above four categories, are reproduced in Appendix XVII (not reproduced here).

ROURKELA

The increase in the estimates of Rourkela project due to increases in wages, prices of raw materials, and freight was stated to be about Rs. 11.69 crores. This is exclusive of the increase, the extent of which is not exactly known due to the delay in finalising the plan of the Rourkela project, of over two years, during which period the general price level undoubtedly rose. The Committee were informed that this increase represented the difference in price level during the period of about eight to nine months between the preparation of the project report in November 1955 and of the revised estimates in August 1956. They were also told that in a period of rising prices, it was natural for the estimates to go up by 5 to 10 per cent within a year. The Committee observe, however, that in this particular case within a period of one year.* The rise amounted to above 12% of the original estimated cost of the Coke Ovens, Blast Furnances, Melting Shops, Rolling Mills and Power Plant (Rs. 95 crores) and about 9.3 per cent of the entire original cost of the project (Rs. 128 crores). It is quite likely that the period of rise in prices continued even after August 1956 in which case there might be further increases in the estimates. The Committee would, therefore, suggest that the estimates of the projects might be reassessed and the differences explained properly.

*Considering that the price levels assumed in the Project Report in November 1955 were those obtaining at the time of preparation of the Report about 4-5 months earlier.

Another reason for the rise of the estimates was stated to be the provision of additions and improvements for the plant subsequent to the project report, which in the case of the Rourkela amounted to Rs. 16.37 crores. It was stated that one such item was inland transport estimated to cost Rs. 5 crores, provision for which was omitted from the original estimates. The Committee consider it strange that such an item should have been omitted by the consultants from the original estimates. They also find it difficult to appreciate why additions and alterations of the value of about Rs. 11 crores should have been found necessary so soon after the project report was submitted.

Another reason for the rise in the estimates was stated to be under-estimation by the consultants in the project report which at Rourkela amounted to about Rs. 14 crores. It was explained on behalf of the Ministry that an under-estimation of Rs. 14 crores in the context of the whole scheme was not very serious. It was also stated that the consultants had admitted that they had under-estimated the cost deliberately in the interest of the projects because there was always a tendency for the figures given by the consultants to be regarded as a sort of minimum on which negotiations could proceed for the contracts. The Committee do not feel convinced by the reasons adduced for under-estimation and suggest that the matter might be pursued with the consultants.

In this connection, it is of interest to find that the largest single item of increase in the estimates is in respect of the rolling mills where the estimates have gone up from Rs. 48.44 crores to Rs. 72.36 crores. In this case, the bulk of the supplies for the plant are to be made by the firms who constituted the consultants.

BHILAI

So far as the Russian Project estimate for Bhilai Steel Plant was concerned it was stated that it was virtually the suppliers quotation for such machinery and equipment, as was proposed in the report, for supply from the Soviet Union. The estimate of Indian costs was stated to be based on certain assumptions and was in no sense a quotation. It was however explained that the estimate of Indian costs out of the total estimate of Rs.110 crores given in the detailed project report was examined by the Consultants to the Ministry, *viz.*, the International Construction Company, and the Civil Engineering Adviser to the Ministry of Iron & Steel, who were satisfied that the assumptions made were reasonable.

The Committee observe that in the case of the Bhilai project the estimates of the cost of construction equipment and of temporary works and structures required for construction went up by Rs. 15 crores. It was stated, in this connection, that no figures were given for that item in the detailed project report and that it was shown as one of the seven items excluded from theestimates. The Committee wonder how items of the value of about Rs.15 crores came to be excluded from the project report. They would suggest that the cost of the six other items, which were excluded from the original estimates, might also be worked out and indicated.

DURGAPUR

As regards the Durgapur project, it was stated that the initial estimate for plant and machinery to be imported from the U.K. was to be subject to an increase of not more than 5 percent in certain sections, in the final quotation. Further the figures for erection, civil engineering, shipping and transportation given in the original estimates were the contractor's preliminary estimates since Indian Steel Works Construction Company had indicated that it was not possible to estimate these costs in detail within the time available. The Committee observe that the increase in the cost of supplies of plant and equipment f.o.b. (Rs. 5.99 crores), the sterling component of technical services (Rs. 3.37 crores) etc. exceeds 5 per cent of the foreign exchange

component of the revised estimate, and, therefore, doubt whether the condition that the increase would not be more than 5 per cent has been fulfilled. They would suggest that this matter might be examined and the scope for reducing the cost of the project in this direction explored. They would also like to be assured that there is no likelihood of large variations in the estimates on account of Indian cost.

Thus the reasons for the rise in the estimates of projects which have gone up by 33 per cent at Rourkela, 18 per cent at Bhilai and 20 per cent at Durgapur between 1955 and 1957 are not entirely satisfactory. No satisfactory reason also exists for not preparing originally estimates for a large number of items amounting to about Rs. 120 crores. The Committee were informed by the Secretary of the Ministry that the existing estimates were not final and that the latest revised estimates were under preparation.* All this would suggest that proper care had not been taken in preparing the plans and estimates for the projects. The Committee consider it regrettable that the Consultants who have been appointed at an estimated cost of about Rs. 10 crores for giving the plans and estimates of the projects did not give firm and accurate estimates of the costs of the respective projects and that the Government did not ensure their timely submission for their own information as well as that of Parliament.

In this connection, the Committee feel that the practice of first presenting partial and approximate estimates to Parliament for initial sanction and then asking for supplementary funds on a substantial scale gives a false picture of the cost of the work proposed to be undertaken since it does not enable Parliament to appreciate the economic aspect of the investment which they are called upon to make for that project. Besides, in such cases the subsequent increases have often to be agreed to almost helplessly in view of the investment that has already been made. They, therfore, urge that Government should before approaching Parliament for approval of a project, prepare and indicate realistic and firm estimates of all financial requirements which might not vary much except for unforeseen changes in general economic conditions.

REVIEW OF ESTIMATES

One of the duties of the accounts organisation at each project is to conduct an annual review of the financial estimates and forecasts of the project and submit the same through the General Manager to the Government of India. The Committee were informed that in actual practice no annual reviews have been prepared so far. However, monthly and quarterly progress reports are being received by the Company which were forwarded to the Ministry of Steel, Mines and Fuel, and thereafter to the Finance Ministry. The Committee feel that it would be desirable to prepare Annual Reviews also, since the monthly and quarterly Reports could not possibly contain a comprehensive and an overall picture of the financial position for the whole year. The importance of such periodic reviews, particularly in respect of big projects, cannot be over-emphasised since they serve as an instrument of financial control for the top management, the Board and the Government and also help in the assessment or progressive performance against estimates, particularly in the case of the steel projects, the costs of which have been mounting. The Committee, would therefore, urge greater attention to the preparation and scrutiny of financial reviews.

*The Committe were on 7-1-59 informed that there would not be any need to revise the estimates of Rs. 439 crores for the steel plants proper and that what was not final was the impact on the cost of the plants on account of escalation. It was admitted, however, that the estimate of Rs. 120 crores for ancillaries was not final.

APPENDIX VIII

A NOTE ON THE COST CONTROL DOCUMENTS USED AT THE HINDUSTAN AIRCRAFT LTD.

Statements are daily sent by the Time Recorders to the shop-supervisors drawing their attention to all jobs on which the time expended is disproportionate to the estimates. Monthly statements are sent to Management and concerned Divisional Heads showing the actual man-hours expended on the projects in comparison with the estimates. Variation in material consumption is pointed out in the form of typed statement.

Operation statements are sent every month to Management, Divisional Heads and Branch Chiefs showing expenditure incurred for the departments under them under various heads. Comments are given on any abnormal variations and investigations are made with a view to take prompt remedial action.

In addition to the above, the following statistical control documents are sent every month to Management and all concerned:

(*a*) *Absenteeism* (*Direct Department*)

Along with the figures for the month, the average for the previous year is also shown for purposes of comparison.

(*b*) *Cost of defective and spoilt work*

The loss under this head is analysed under the various causes *viz*., operators' and supervision fault, material fault, etc., based on the remarks given by Inspection Department.

(*c*) *Avoidable lost time*

The avoidable lost time is analysed under want of work, want of materials, machine breakdown, etc., based on the entries given on the Time Docket.

(*d*) *Overtime*

Along with the overtime figures for the month, the average for the past year is also given for the purpose of comparison.

APPENDIX IX

EXTRACTS FROM THE REPORT OF THE ENQUIRY COMMITTEE ON THE WORKING OF THE GOVERNMENT OF INDIA RAILWAY COLLIERIES, 1951, P. 68.

It is one of the recognised principles of book-keeping that expenditure shall be taken into account in the period to which it relates but in these collieries it would appear that expenditure is charged against cost during the month in which the bills are passed. This causes considerable inaccuracy and variation in monthly cost.

No provision appears to have been made for liabilities of an extraordinary nature such as arrears of payments under the Conciliation Board Award which dates back to 12th May 1947 or for arrears of payments due to revision of the salary scales of monthly-paid personnel.

There is no provision for spreading the cost of heavy replacements such as wire ropes (for haulages or winding engines) over a period commensurate with the working life.

Subject to the above it would appear that although there is comparatively little difference between the accounting systems followed in the Railway collieries from those followed in private collieries there is one outstanding difference in practice. In the private collieries cost and other control accounts appear to be produced within a few days of the end of each month so that undue differences in expenditure may receive early attention and possible economies affected with the minimum of delay. Whereas in the Railway collieries by the time these accounts are received by the Chief Mining Engineer it is often too late to take remedial action.

NOTES

APPENDIX X

Principal points about the Incentive Bonus Scheme used at the Chittaranjan Locomotive Works:

With a view to encourage workmen to use their skill and effort to the advantage of themselves and to the Railway Administration, it has been decided to introduce a scheme of payment by results in these Works. A beginning in this direction will be made in respect of piece-work jobs commenced on and from 16.12 1954 in the Cylinder Section of General Iron Foundry (014,018), Spring Section of Forge and Smithy Shop (035) and Bar Section of Light Machine Shop (073). The scheme will be extended gradually to other shops as and when the conditions precedent are established. Following are the main features of the scheme :

(1) The allowed times are so fixed that a workman of normal ability may be enabled thereby to earn 33.1/3% over and above his basic wages in respect of the period spent on piece-work jobs.

(2) The mean of the prescribed scales of pay applicable to Unskilled, Semi-skilled, Skilled, Highly-skilled, Mistries and Chargemen will be taken as a standard basic wage of each of these classes of workers for the purpose of calculating the piece-work results.

(3) The ceiling limit on profit is fixed at 50% of standard basic wages as detailed in sub-para (2) above, earned in respect of each piece-work job.

(4) Supervisors of the level of Chargemen and essential indirect workers will participate in piece-work profits subject to their earnings being restricted to 80% of the average percentage of profit earned by direct workers supervised by them. In the case of Mistries, however, they will be paid 100% of the average percentage of profits earned by direct workers under their control.

(5) The basic wages of all workers are guaranteed irrespective of their piece-work results, but losses during any particular month will be adjustable against the profits of the same month.

(6) Hourly rates of pay for calculating piece-work results will be based on 208 man-hours per month throughout the year.

(7) All cases of abnormal profits (above 50%) and those of losses will be investigated by the Administration (Rate-fixing Section) for necessary remedial action.

(8) The Administration reserves the right to vary the standard timings of new and faster machines are installed or other time-saving devices are introduced and also if there is any error in computation or in printing.

(9) In case an operator changes the method of manufacture on his own initiative resulting in quicker production and intimates the method to the administration, he will be compensated by the grant of a reward equivalent to corresponding expected saving in standard basic wages for six months if on investigation it is found to have the advantage claimed, and the allowed time will be changed accordingly. In cases, however, where the methods are changed by the operators without bringing to the notice of the Administration resulting in quicker production, they will not be entitled to this reward and the Rate-fixer will be authorised to alter the allowed time immediately.

APPENDIX XI

(A) EXTRACTS FROM 11th REPORT OF 2nd LOK SABHA (1957-58) ON THE INDIAN TELEPHONE INDUSTRIES (P) LTD., BANGALORE

TRENDS IN EXPENDITURE (Page 22)

	Items	1954-55	1955-56	1956-57	(Rupees in lakhs) 1957-58 (Budget)
(*i*)	Salaries and Wages	33 (100)	39 (118)	52 (160)	70 (233)
(*ii*)	Overheads	49 (100)	58 (118)	72 (147)	*62 (188)
(*iii*)	Power & Fuel	1 (100)	1.3 (130)	1.6 (160)	2.03 (200)
(*iv*)	Depreciation	23.7 (100)	21.00 (88)	26.1 (110)	28.0 (118)
(*v*)	Depreciation on idle machinery	1.8 (100)	1.3 (72)	.8 (44)	..
(*vi*)	Repairs to machinery	4.1 (100)	7.9 (193)	4.2 (102)	..
(*vii*)	Total Revenue expenditure	76 (100)	94 (124)	110 (144)	130 (171)
(*viii*)	Plant & Machinery in factory	87.7 (100)	95.5 (109)	107.2 (122)	141 (171)
(*ix*)	Total Production	309 (100)	337 (109)	377 (122)	*425 (129)+
(*x*)	Actual Production (I.T.I.'s Effort)	110 (100)	139 (126)	176 (160)	239 (217)+
(*xi*)	Sales	302 (100)	259 (85)	272 (90)	350 (112)

*Likely to be actual for 1957-58.

(B) STANDARD OF BUDGETING (Page 24)

(in '000 of Rupees)

S.No.	Particulars of items	1954-55			1955-56			1956-57		
		Budgeted	*Actual*	*Variation*	*Budgeted*	*Actual*	*Variation*	*Budgeted*	*Actual*	*Variation*
1.	Salary and Wages	3,633	3,110	+523	4,295	3,745	+550	5,330	4,735	+595
2.	Staff Welfare	115	117	−2 (1.8%)	158	176	−18	229	212	+17
3.	Consumption of Stores & Spare parts	226	265	−39	372	378	−6	523	456	+67
4.	Repairs to machinery, etc.	335	409	−74	361	785	−424 (117%)	475	417	+58 (85.3%)
5.	Depreciation	..	2,182	−2,182	..	1,973	−1973	2,600	2,523	+77
6.	Depreciation on idle machinery	..	185	−185	..	132	−132	..	78	−78
7.	Revenue Receipt	..	151	−151	..	287	−287	..	512	−512
8.	Sales	33,500	30,200	3,300	32,100	25,900	+6,200	28,800	27,200	+1,600

(C) PRODUCTION—TARGET AND ACTUALS (Page 29)

Item	1953-54		1954-55		1955-56		1956-57		1957-58	
	Target	*Actual*	*Target*	*Actual*	*Target*	*Actual*	*Target*	*Actual*	*Target*	*Actual*
MAX										
1. Telephones	40,000	40,952	50,000	49,137	50,000	48,200	60,000	48,400	65,000	..
2. Exchange Lines	15,600	15,600	30,000	29,000	35,000	29,400	41,000	32,480	42,000	..
Transmission										
3. Single Channel Tel.-Sys.	30	30	30	12	30	19	60	61	30	..
4. Channel Carrier Sys.	..	..	..	2	12	15	40	20	40	..
5. PAX's & SAX's	..	..	..	45	..	99	..	166	..	..
6. 12-Channel-Carrier Equip.	..	..	..	..	..	..	3	1	5	..
Production in Rs. Lakhs.	..	..	..	309	..	337	..	377	..	..

(D) COST OF PRODUCTION (Page 33)

Description	1955-56	1956-57
	Rs.	Rs.
Auto Telephone	90.00	79.19
C.B. Telephone	70.00	61.33
Dial 24C	20.00	16.88
Transmitter	4.53	4.12
Meter	16.00	10.66
Uniselector	37.85	33.48
Strip Connection	8.75	7.12
Condenser 2.0 MF	3.05	2.35

(E) BREAK UP OF COST OF PRODUCTION (Page 34)

(Rs. in lakhs)

S.No.	*Particulars*	1954-55		1955-56		1956-57	
		Rs.	%	Rs.	%	Rs.	%
1.	Direct Material	252	81.5	269	79.8	292	77.4
2.	Direct Labour	8	2.6	10	2.9	13	3.4
3.	Overheads	49	15.9	58	17.3	72	19.2
4.	Percentage of Overhead to Direct Labour	612.5%		580%		554%	
	Total production (including works in progress at the end)	309	100.0	337	100.0	377	100.0

(F) UTILISATION OF MACHINERY (Page 36)

Year	*Rupees in lakhs*		*Average Utilisation value of idle Machinery*
1952-53	69.71	35%	45 lakhs
1953-54	80.29	56%	36 lakhs
1954-55	87.7	82%	15 lakhs
1955-56	95.5	91%	9 lakhs
1956-57	107	112%	

(G) UTILISATION OF MACHINERY (Page 37)

(Shop-wise)

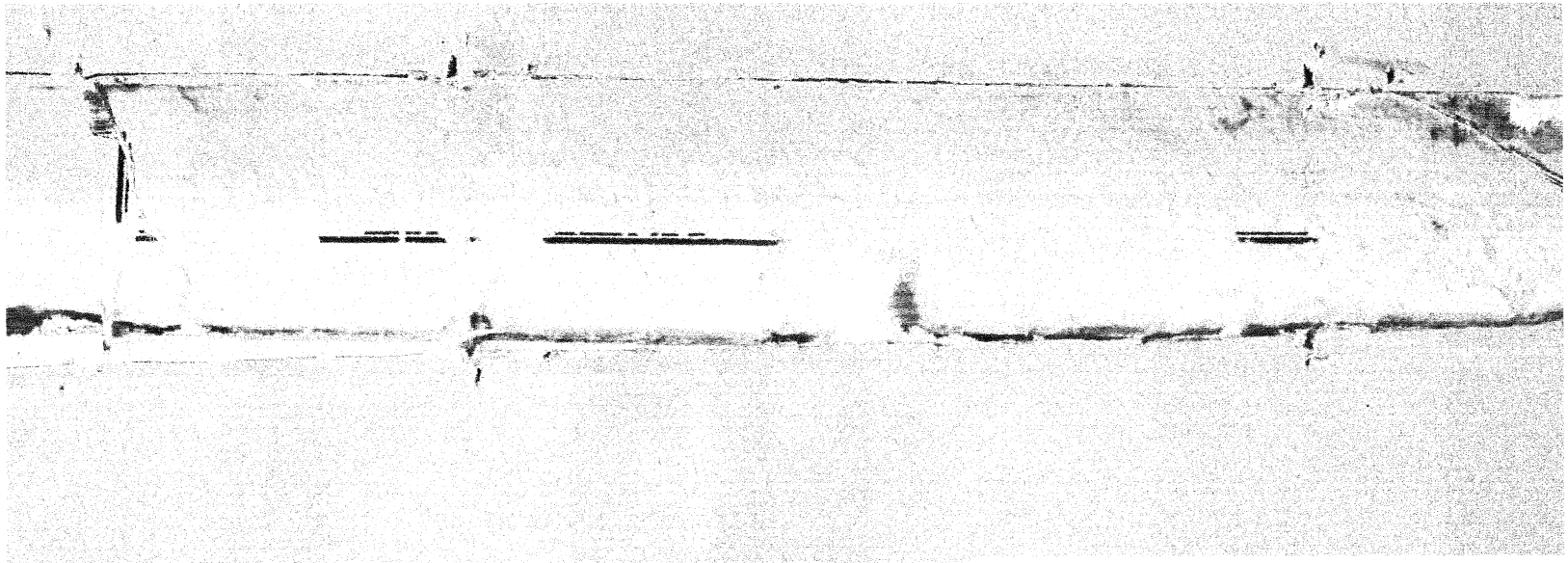
Sl.No.	*Group*	1956-57 *M/c Utln.*	1955-56 *M/c Utln.*	1954-55 *M/c Utln.*	1953-54 *M/c Utln.*	1952-53 *M/c Utln.*
1.	Telephone Manufacturing	90	90	88	76	63
2.	Dials Manufacturing	70	69	64	32	18
3.	Condenser Manufacturing	60	60	..	..	..
4.	Heat Treatment	180	140	100	80	..
5.	Frame Works	120	110	105	83	30
6.	Moulding	175	126	129	103	69
7.	Relay Manufacture	130	123	102	58	10
8.	Bank Manufacture	110	108	91	52	..
9.	Plating, Finishing etc.	140	111	93	56	35
10.	Automatics	140	120	89	35	30
1 .	Miscellaneous Manufacturing	102	102	60	10	..
12.	Switches Manufacturing	75	73	59	20	10
13.	Die Casting	60	55	43	..	..
	Factory Average	112	91	82	56	35

(H) STAFF POSITION (Page 52)

Category	*Description*	*As on 31.12.54*	*As on 30.9.57*	*% increase over 1954 strength*
I	Administrative including Accounts etc.	548	650	19%
II	Factory Supervisory	357	504	41.5%
III	Factory Staff (Monthly Rate)	320	416	30%
IV	Factory Staff (Non-Supervisory)			
	Skilled*	357	547	87%
	Semi-Skilled*	933	1816	
	Unskilled	174	385	
	Others (including Construction, Watch & Ward, Transport and Hospital Staff)	177	329	
		2866	4647	62%

*Including those under training.

New India Press, New Delhi.



SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

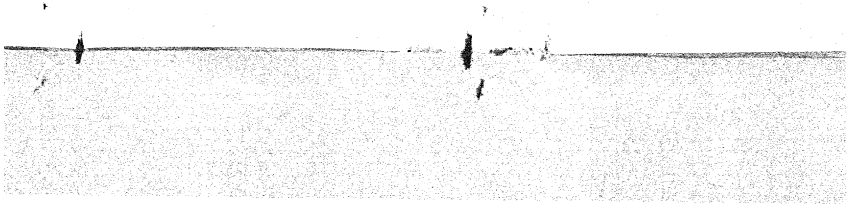
SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

PERSONNEL MANAGEMENT

BY
S. S. JAGGIA

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Discussion Paper No. 13



PERSONNEL MANAGEMENT

By
S. S. JAGGIA
Managing Director, Hindustan Insecticides Ltd., New Delhi.

Personnel Management occupies an important place in any Industrial Organisation. With the rapid industrialization of the country it has of late assumed an added importance in India. The connotation of the term is so vast that it is well-nigh impossible to discuss all its aspects within the compass of this brief write-up. Notwithstanding the vigorous efforts to define definite policies to govern it, Personnel Management still sails, as it were, on an unchartered sea in a rudderless craft.

Personnel Management covers a very vast field of activities in an Industrial Undertaking, namely:

(*i*) Determination of Manpower requirements;
(*ii*) Sources of supply, selection, interviews, tests etc. of Labour & Executives;
(*iii*) Their placements, transfers, promotions, training, merit-rating etc.;
(*iv*) Wage-structure and other allied problems of remuneration;
(*v*) Job Evaluation;
(*vi*) Union-Management Relations;
(*vii*) Grievances of Labour;
(*viii*) Disciplinary Actions;
(*ix*) Security Measures; and
(*x*) Research etc.

By far the most important aspect of Personnel Management today is what in ordinary parlance is known as 'Labour Relations' *i.e.*, relations between the Labour and the Management within the confines of a given factory or office.

The chief function of the Personnel Management according to an eminent American authority on the subject lies within the field of Planning, Organizing and controlling various operative functions of procuring, developing, maintaining and utilizing a labour force. This has to be done in such a way that the objectives for which the Company is established are attained economically and effectively and those of all levels of personnel as well as the community at large are served to the highest possible degree.

The discharge of these functions which is the responsibility of the Management involves the whole question of Management-Labour relationship. The entire programme and policies of the Management have to be

directed to produce a relatively effective and satisfactory labour force. I use the word 'relatively' as the ideal of a labour force being entirely contented with nothing to grouse about is, in the present-day conditions, more or less chimerical and almost impossible of achievement.

This problem of Labour-Management relationship is more difficult and complicated in India where the economic conditions are sub-normal and unemployment problem so acute. The transition stage through which we are passing in this era of Industrial Revolution further aggravates these difficulties. Government is doing its best through Labour Legislation, Labour Conferences, Seminars, Study of conditions in other industrially advanced countries, encouraging organisation of well-knit Labour Unions, enactment of Codes of Discipline and numerous other measures to improve the lot of labour but the position so far is far from satisfactory.

In general, relative success attends such efforts in certain better managed companies but it cannot be gainsaid that conflicts and disargreements tending to disturb relations between Management and employees keep on arising almost all over and it is precisely such situations as constitute a test of Management's capacity and statesmanship to resolve the differences and restore Industrial peace and concord.

A great deal of effort is necessary to maintain the labour relations at a level which secures desired aims in the realm of productivity. The Labour Education Scheme is a step in the right direction in this context. This Education will go a long way to increase productivity, to safeguard success of the working of the Companies and to increase personal satisfaction of the individuals themselves.

The present organizational set-up implies a sort of contract as between Labour and Employers. An employee sells his skill, time and willingness to work for certain monetary and other considerations. In the matter of engagement of employees, the Employer is usually in the Driver's seat. The Employee is to start with an inferior or disadvantageous position in so far as bargaining is concerned. As soon as he gets into strides he seeks to balance the forces of bargaining through collective effort and herein Labour Unions come to play their roles. Collective bargaining by which agreements are arrived at and conditions under which Employees agree to contribute and be paid for their services are determined, is one of the principal functions of the Unions.

In the discharge thereof Unions have to proceed very cautiously. While on the one hand they have to safeguard the interests of employees in exercise of their prerogatives as their representatives, they have got to see that in doing that they do not lower the standard of discipline and vitiate the tone of administration.

The recent experiment of Joint Management Councils which is an attempt to infuse in the Worker a sense of responsibility and a feeling of proprietorship is likely to produce very satisfactory results if only an outlook of fairness and reasonableness is brought to bear on either side on matters which form the subjects of discussions in the meetings of these Councils.

The basic watch-word of Personnel Management should be 'fairness'. It helps build the confidence of Labour. It is not enough to be fair but the Managements should also appear to be fair. They should realise that as men do not live by bread alone, similarly Labour also does not live by pay-envelopes alone. There is a lot to be done besides to boost up their morale. The Labour should be made to feel that whatever they earn is the reward for the effort they have put in and that their efforts are not being undervalued consistently with the limitations of the Concern.

As far as possible their legitimate demands should be anticipated and a humane view taken of matters relating to them.

This Human Factor plays an important part in the Management dealings with labour.

At times the behaviour of an individual towards his duties or towards Management is affected by his predisposition. He might be emotionally upset, worried about family affairs, preoccupied with political or religious matters. All these factors tend to affect his behaviour. In dealing with such employees, the human factor has to be brought into play. The Management has to bear with such cases and analyse the causes of his behaviour and deal with them accordingly. Many a good and otherwise well-behaved employee is made to suffer for want of human element on the part of Management in their dealings with them. This hitherto somewhat neglected aspect is now receiving due consideration as a result of the efforts of Government to emphasize it.

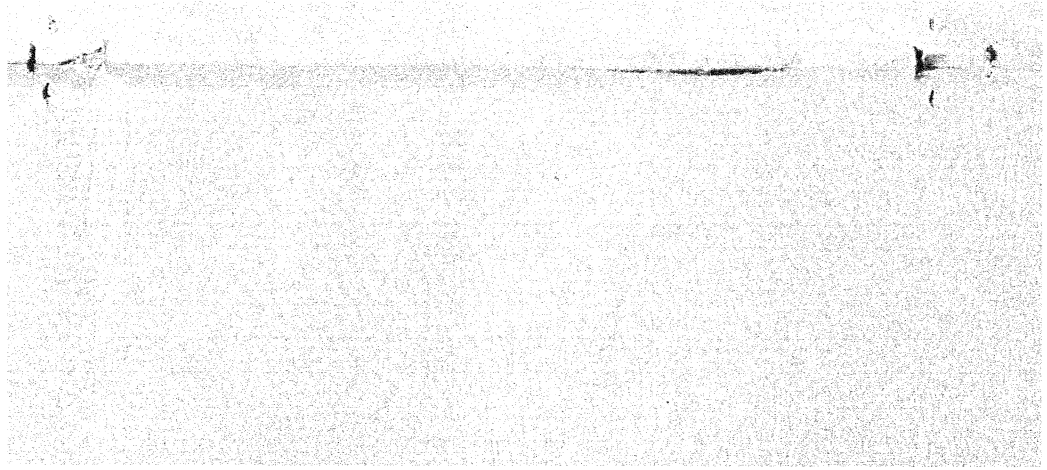
The Managements have got to remove the basic causes of unrest or discontent among the Employees. Good human relations cannot be expected to be maintained for as long as situations are allowed to exist which bring about dissatisfaction among employees on the one hand and the Managements on the other.

Grievances represent a common form of Employees' dissatisfaction with the Management just as disciplinary actions are indicative of Management's dissatisfaction with the employees. In either case, appropriate procedures and policies have to be established to minimize the causes of the dissatisfaction on both sides.

The establishment of Grievance Committees or call them Industrial Relations Committees wherever they exist, tends to help matters in this direction by removing tensions and thereby avoiding what might be called 'cold war' in the field of Labour-Management relations.

I have no doubt that the earnest efforts that are being put in both by the Managements and the workers as represented by their respective Unions would certainly bring about a substantial improvement in Industrial relations in course of time and bring about that measure of concord which is so necessary to step up production in the country.

Let us not forget that in the final analysis "It matters not", to quote Mr. L. Urwick, "how great and successful a modern business may be, how vast its assets, how unquestioned the value of its public services and the sum of its goodwill, the final measure of its strength may be stated in the simplest terms—the collective strength of the individuals who are responsible for its destinies."



SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

PRICE POLICY

BY

S. T. RAJA

&

INCENTIVE WAGE SYSTEMS

BY

S. RATNAM

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Discussion Paper Nos. 14 & 15

PRICE POLICY

By
S.T. RAJA
Managing Director, Hindustan Antibiotics Ltd., Pimpri.

The price of a commodity, according to the old principles of economics, was defined as the amount of money which it will command. A commodity which sold for a high price had a high value in terms of the accepted medium of exchange and this price indicated and measured the values of goods in terms of a commonly accepted medium of exchange. This old orthodox definition has undergone radical changes with changes in society, economic values and in a period of planned economy. Similarly, it was stated that the price is the result of the interaction of demand and supply. If the demand is more than the supply the price will rise and if it is less the price will fall. While this principle may be largely true in a free economy, it does not always operate in case of essential commodities where the social needs and Government policy take certain steps to check undue rise in prices of commodities which are considered vital for the building up of the national economy. The question of price policy therefore has to be examined in the light of the modern concept of a society which has accepted planned production and distribution in order that the consumer gets goods and services at as low a price as possible with due regard to the reasonable interests of the producer also. The price has therefore a great deal to do with the nature of the commodity, *i.e.*, the degree of its usefulness to the society, its cost of production, reasonable margin of overheads and profits, and what the traffic can bear.

2. When one talks of cost of production, it again involves a very complicated system of accounting. In order to determine what exactly goes into the cost of production and what is the cost of production of each given item at each particular stage of production, a number of things have to be considered. The normal items going into the cost of production and of sale of an article are costs of raw materials, power, processing, labour, overheads, depreciation of plant and equipment and obsolescence, cost of distribution including salesmanship and advertisement, reasonable return on the capital invested, etc. Cost accounting is a continuous process and the price-fixer has to be equipped with figures of cost of production at different stages of processing and also of the finished article. It is the function of the cost accountant to provide the price-fixer with the best possible information that will assist him to apply the marginal price-fixing technique. In order to maintain the cost of production at as low a level as possible, the efficiency of the plant and equipment has to be maintained at the highest level possible. This would mean that raw materials would have to be purchased at the cheapest price possible at the most advantageous time for purchases of such materials. The stocks of raw materials have to be maintained at such levels that while large amounts are not unnecessarily locked up in

store purchases, low stocks on the other hand should not jeopardise operations. Care has also to be taken to see that the maximum per capita output is obtained from the labour employed on that job. Automation has its obvious advantages as a labour saving device; but in a country like India, a golden medium has to be struck between automatic machines and employment potential, because industrialisation while increasing the national wealth, has also to play an important role in providing jobs and opportunities of employment to the growing millions of the country. As the aim of our Constitution is to provide equal opportunities and better standards of living to the people of this country, the Public Sector factories have a special responsibility in this matter not only to provide as many jobs as possible but also to set a pattern for efficiency and labour-welfare for other industries in the private sector. It is for this reason that amenities like housing, free education, free medical aid to the workers and their families, sufficient leave and opportunities for rest and recreation and similar other amenities are provided in a large measure by the Public Sector factories. This policy naturally involves greater expenditue and some of it might appear unproductive in as much as it cannot be directly connected with any particular plant, equipment or process of manufacture. It, however, gives a very valuable, though not tangible, return in the shape of greater satisfaction of the worker and hence improved efficiency. All these items of amenities naturally go into the cost of production and it is therefore necessary to ensure that the workers who enjoy these benefits of relatively higher wages and amenities, also give better and higher output. This would depend largely on the realisation on the part of the workers and the extent of co-operation that they and their Unions are able to extend to the Management.

3. While talking of efficiency of production, considerable attention has also to be devoted to the quality of products. For this purpose standards have to be laid down and rigidly enforced under a system of strict inspection. In this direction, the Indian Standards Institution has been doing extremely useful work. Various testing stations set up by the Government as well as by other agencies have also been playing an important role. What is however required is an extremely competent independent and strict inspection unit in each manufacturing concern; and no article should be allowed to leave the factory unless it has been severely tested and passes all the tests.

It is not easy for a manufacturer to resist the temptation of pushing his goods into the market as rapidly as he can make them. Such temptations would be all the greater if the commodity is in considerable demand and there are pending orders and reminders from customers. The lure of quick sales and early realisation of cash coupled with the desire to fulfil the demands as early as possible, very often lead the manufacturer to close his eyes to the vital need of strict inspection and to go ahead with the despatch of goods even at the risk of deterioration of standards. The manufacturer who cares for his own reputation and that of his products, must resist these temptations and reject any article which does not come up to the requisite standards. In the pharmaceutical industry, and more particularly in case of a life-saving drug like Penicillin, we have been doing this without any hesitation. If reputation is once lost, it would take many years to build it up again. It is for this reason that we have placed the Quality Control Department directly under the Managing Director, manned it with competent and experienced scientists and told them that even in case of the slightest doubt they should reject the goods rather than take a chance of losing the reputation of the company or endangering human life.

4. Once efficiency and quality of production have been assured, the next question having a bearing on the price is that of distribution including sales, sales promotion, and publicity and the margin for distribution cost to be included in the price. This varies from industry to industry. In a heavy engineering industry producing a few units, the margin per unit would naturally have to be higher. In a light consumer industry producing hundreds of thousand of units of consumer goods, the margin might be smaller

because the overall profits on a large turnover will be more. There are however certain consumer goods industries where the margin has got to be fairly high due to the very nature of the activities involved. An outstanding example of such an industry is the Pharmaceutical industry. There may perhaps be an impression in the public mind that the Pharmaceutical industry charges exorbitant prices for its products and thus indulges in profiteering. This impression perhaps ignores the fact that such industries, in order to remain in the market, have got to maintain extremely efficient and expensive research and development units. The invention of a new medicine or drug would necessarily involve a long and patient period of research and large expenditure. Out of a hundred or more researches on hand, perhaps one might prove successful and even that successful research might not be found commercially profitable as a result of some other manufacturer obtaining better results or having succeeded in publicising his products better. As drugs become out of vogue, and diseases develop resistance to a particular drug, new drugs and remedies superior to the previous ones have got to be found. Moreover, a manufacturing process has to be evolved and adopted by a system of trial and error and a lot of work in the laboratory. The Pilot Plant operations in the initial stages have to be done for obtaining reasonable yields from new raw materials. Once mass production by rational methods starts, the price of these drugs decreases considerably. Penicillin is an outstanding example of such a process. When it was first invented, it cost a fortune and its storage under refrigerated conditions was a problem. Now it sells as cheap as about 50 nP. for an average vial which any ordinary man can purchase. When the present Penicillin Factory at Pimpri was planned, the cost of production was estimated at Rs. 1.25 per mega unit in bulk which was comparable to the international price prevailing at that time. Since then the technique of penicillin production has been so much revolutionised as a result of further research that it has been possible to obtain much higher yields during the process of manufacture. This has naturally resulted in substantial reduction both in the internal and international price of this drug. The same penicillin is at present selling in bottled form at an approximate price of about 50 nP. for an average packing which would mean that the cost of production would be still less. Similarly, its bulk price in the international market has gone down to less than Rs. 0.25 per mega unit. This would illustrate the point that once production stabilises in case of an important drug in the pharmaceutical industry and it has good prospects of holding the market for a reasonably long time, the prices are bound to fall substantially.

In addition to the expenditure on research, provision has to be made in certain industries for obsolescences of the plant and machinery. For example, if a new and more potent drug is discovered or if a biological product is economically synthesized, substantial changes in plant or even replacement of the entire plant may have to be carried out resulting in the investment being rendered partly or wholly infructuous. This is happening almost every day in many industries and the problem has to be faced and tackled as and when it arises. Every such manufacturer therefore has to lay aside a substantial amount to provide for this contingency and to use it as and when necessary.

5. A third factor which has to be provided for in the calculation of the price, is the expansion programme for the plant and equipment. As the public demand for these products grows, factories have to expand their production not only in the particular branch of production in which they are engaged but they have also to take up other products of an allied nature which could also be produced economically and thereby benefit the industry as well as the public. Funds for such expansion and production of allied products can be found either by increasing the share capital, borrowing funds by issuing debentures or taking medium or long term loans or by utilising the reserves of the existing plant. The first system of floating further share capital would increase the burden on the factory for a long period and would also make an inroad on the capital available in the market, which is an

expanding economy of a country like ours, is not always adequate. The second system of floating debentures or taking loans would also involve payment of interest and an added obligation on the factory. The rates of interest for these loans would naturally be higher than those at which these lending institutions themselves would be borrowing. It is therefore advisable to build up general reserves for capital expansion of the project and to utilise these reserves of the factory itself for its future development. The national policy of taxation should also be framed in such a way that it would encourage production units to accumulate larger and larger reserves for development and to distribute only such amounts as dividends as would be commensurate with the normal returns on capital investment in the country and thereby help capital formation for the future expansion of the country. Any factory therefore including in its price a reasonable margin for future expansion without unduly upsetting the price structure of the country, should be considered to have taken a step in the right direction and be encouraged to do so. It should not be difficult to ensure that the funds earmarked for expansion and development, are utilised for that purpose only. The Company Law Administration or Income Tax Administration or the Ministry of Commerce and Industry in the Development Wing, would be the proper agencies to ensure correct utilisation of such funds. Provision in the price structure for future development is all the more necessary in a Public Sector factory where the required funds naturally come from the taxpayers' pockets. If adequate funds are not available with the factory, Government has to find them by resorting to further taxation.

6. While it is extremely difficult to lay down hard and fast rules for a progressive price policy in a country like India in relation to the various goods and services produced by the various concerns, certain fundamental principles and policies can be of guidance both to the Government and to the Industry for evolution of a proper price policy.

(*a*) Once the cost of production is brought down as low as possible as a result of increased efficiency and production and without adversely affecting the standards and quality of an article, a substantial portion of these benefits should be passed on to the consumer.

(*b*) Certain portion of the benefits of this increased efficiency and lower cost, should also go towards increasing provision for obsolescence and depreciation of plant, welfare activities for the workers and future development.

(*c*) Assessment of cost of production being a continuous process, revision of prices at suitable intervals also becomes a normal activity of a progressive industrial undertaking. In working out these price reductions, the Board of Directors or the policy-making body has to consider carefully the incidence of various other factors even after a scientific cost accounting is done and placed before them.

(*d*) After having carefully fixed the price based on the above principles, the announcement of the price reduction should not be made at frequent intervals or too much before the effective date. At the same time reasonable time has to be given to the public and to the distribution agencies for adjusting their sales to the revised situation. Too many and too frequent changes, even if the prices are to be reduced, instead of being appreciated by the public are likely to shake their confidence in the price structure and might adversely affect sales.

(*e*) Widest possible publicity has to be given to the revised prices in order that the information reaches the consumer in every part of the country. A debatable point in this connection is whether it is possible for all producers to fix

one or more consumer prices for the country as a whole and to ensure that every consumer even in the remotest part of the country will get the product at that price. This is indeed a very tall order especially in a vast country like India, where channels of transport and communications are not always developed in equal proportions. If local shortages develop, the economic principle of demand and supply would start operating in spite of the fixation of a consumer price. Moreover, while a producer may have certain influence and control over the dealer or the wholesaler at certain points of his distribution pipeline, it is not always possible either for the distributor or the producer to force the retailer to charge a particular price to the consumer. Even if such an agreement is taken from the retailer, it would not be worth the paper on which it is written. In case therefore of commodities considered most essential for the life of the community, nothing short of an ordinance or law like the Essential Commodities Act would achieve the object of price control. Price stabilisation, however, can be achieved by fixing a trade price and maintaining adequate supplies.

7. Summing up the position, Government of India, which aims at a socialist pattern of society, has adopted a policy of progressively bringing down the prices of goods and services wherever possible and they are able to do so with greater speed in the Public Sector factories over which they have a direct control. This enlightened policy is sought to be implemented by encouraging production, maintenance and improvement of high standards of quality of the goods, permitting adequate provision for depreciation and development of the industries, promotion of increased labour welfare activities, permitting reasonable return on the capital investment and passing on the benefit of the increased efficiency and lower cost of production to the consumer.

INCENTIVE WAGE SYSTEMS

By

S. RATNAM

Officer on Special Duty, Ministry of Commerce and Industry, New Delhi.

Systems of wage incentives fall into three broad categories :

(1) Wages regulated on piece work;

(2) A basic wage for an agreed output to which is added a bonus proportionate to additional output; and

(3) A bonus payable on the output of a group each member of which draws a separate basic wage.

I am excluding from consideration in this article all systems of profit-sharing bonuses which though they act as incentives to improved production are not necessarily devised to make the individual worker put out his best.

The method of remunerating an industrial worker on a scale proportionate to his daily output without a guaranteed basic wage can appropriately be applied to those industries where intermediate products can be stored or disposed of separately, should imbalance of overall production occur as a result of certain workers proving to be more diligent than others. For instance if the labour in the spinning section of a composite textile mill works more assiduously than say the workers in the warping, sizing and weaving sections it would be possible to sell the surplus yarn or stock it till such time as the weaving section provides a remunerative outlet even if overtime working is undertaken. An unmodified piece work wage scheme cannot be successfully employed in industries other than the ones of the type mentioned. As none of the public sector undertakings is of this type, consideration of piece work remuneration may be ruled out. All the State undertakings have been set up to turn out a final product and disposal of output at intermediate stages is not contemplated.

The second category of superimposing an incentive wage addition on a basic wage is not suited to industries producing engineering goods. The basic wage is initially set to conform to the rates obtaining in the locality for the class of worker concerned. The strength of the production line is so planned that the sum total of the output for the basic wage produces an integral number of finished units. An incentive wage dependent on the individual worker's additional output over the base may result in uneven output of components which may not all be used in the assembly of an integral number of finished units. In such a case the surplus components can be issued for sale as spares or stocked for future assembly. Correctives can always be applied to balance the availability of components by allowing

overtime. The chief merit of this system lies in the fact that the generality of workers will tend to maximise earnings. When overall increased efficiency is reached an upward adjustment in the basic wage related to a higher norm of production will be a desirable sequel.

In certain types of industries, principally chemical, where an assessment of the output of the individual worker is impossible, a group bonus to workers tending to a section of the plant may provide the incentive necessary to improved production. The improvement may evidence itself either as an increase in output or as an economy in the use of stage raw materials or both. It would be best to let the group leader do the distribution of any bonus earned to the members. The management would have already set the basic norm and the rate at which the bonus would be calculated on improved production.

It has to be realised that factors like habits of and opportunities for spending (including saving), and the outlook on life of the worker set limits to the extent to which the worker will go in order to profit by any incentive wage system. Incentives have to be provided in order to induce the Indian worker to profit to the maximum extent by any incentive wage system laid on for his and the industry's mutual benefit. It is common knowledge that in an industrially advanced country the most potent of such incentives driving a worker to bring in a higher earning on pay day is provided by the commitment on hire-purchase instalments of household goods which the worker's wife has committed herself to in advance.

New India Press, New Delhi.



SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

SOME ASPECTS OF THE MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES IN THE ECAFE REGION[1]

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Paper No. 21

1. Prepared by Mr. M. Ayub, C. S. P., a Director of the Pakistan Industrial Development Corporation, with a few minor editorial changes by the ECAFE secretariat.

SOME ASPECTS OF THE MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES IN THE ECAFE REGION

By

M. AYUB

GENERAL

This working paper supplements the country papers and papers from governments of the countries in the ECAFE region for the United Nations Seminar on Management of Public Industrial Enterprises, to be held at New Delhi in December 1959. In addition to the material received from the participating countries, and numerous publications of the United Nations, the author relied upon his working experience of industrial development in India and Pakistan, and his observations of the conditions obtaining in Burma, Ceylon, Japan and Thailand.

The paper is neither exhaustive nor comprehensive, but merely attempts to identify some of the general problems in the management of public industrial enterprises in the ECAFE region, and to suggest some of the remedies which have been found effective in one or the other country of this area. Emphasis has been placed on the practical, rather than the theoretical, aspects of industrial management, in the hope that this approach might stimulate discussion and enable participants in the Seminar to describe the difficulties they themselves encountered and to explain how these difficulties were overcome. It is fully realized that, while the basic problems of industrialization might be similar in most of the countries of the ECAFE region, it is not always easy to prescribe uniform remedies applicable to all cases. Modifications and adjustments are necessary to suit the political, economic and administrative conditions of each country. Moreover, experience in the management of public industrial enterprises in south Asia and the Far East is still limited, and it would be incorrect to dogmatize on the basis of the experience gained in the past one or two decades.

Until the Second World War, most of the countries in the ECAFE region were predominantly agricultural. Large-scale industrial development was either non-existent or of limited importance. During the last fifteen years, a concerted attempt has been made to make up for the neglect of the past, and to develop the industrial potentialities of these countries. This effort has been made both in the private and in the public sector. The point to note is that, despite the differences in political background or economic organization, the public industrial sector has recorded continuous growth in the post-war years. The accompanying table gives some idea of planned public expenditure on mining and manufacturing enterprises. The data are derived from the current public plans of the countries concerned, and it is more indicative of the plans rather than their implementation in full. The volume of investment is somewhat different from that planned, owing to foreign exchange shortage, rising costs of equipment, difficulty of securing

suitable personnel and so on. Even with these limitations, the table succeeds in reflecting the growing investment and the positive role envisaged for the public industrial sector in many countries of the region.

The reasons for the establishment of public industrial enterprises have varied from country to country. Ideology has obviously contributed to the expansion of the public sector in mainland China. Acceptance of a socialist pattern of society in countries such as Burma, India and Indonesia has influenced the growth of public ownership of industry. At the same time, private enterprise continues to play an important role. In some countries, it is considered necessary that monopolies and public utilities should normally belong to the State. In a number of other countries, such as China : Taiwan, Indonesia and southern Korea, the Government has taken over the industries belonging to the former ruling powers. But in most of the region, the main justification for state intervention has been the fact that private enterprise has been unwilling or unable to undertake large, or relatively unprofitable, industrial ventures on its own, and that speedy industrialization in these under-developed areas could take place only as a result of the initiative and active effort of the governments themselves.

Planned Public Expenditure

(Millions of national currency units)

Country	*Plan period*	*Total*	*Mining and manufacturing industry*	*Percentage*
Afghanistan		10,062	1,170	11.6
Burma	1956/57-1959/60	2,512	307	12.2
China : Taiwan	1957-1960	12,327	5,884	47.7
Mainland*	1953-1957	83,805	32,933	39.3
Federation of Malaya	1956-1960	1,138.5	17.3	1.5
India	1956/57-1960/61	48,000	8,900	18.5
Indonesia	1956-1960	12,500	3,125	25.0
Nepal	1956/57-1960/61	330	19	5.75
Pakistan	1955/56-1959/60	9,350	1,620	17.3
Philippines	1957-1961	1,860	433	23.3
Viet-Nam, southern	1957-1961	17,500	1,600	9.1

* Referring to government development expenditure.

Note: (1) Figures are provisional and subject to revision, and are taken as far as possible from the published plans.

The agencies for the establishment and operation of public industrial enterprises have varied from country to country. The most common forms in vogue are departmental enterprises; public companies controlled by governments owning the majority of the shares; and semi-autonomous corporations financed and controlled by the State. Their efficiency and financial soundness have varied from industry to industry, and from country to country. By and large, public corporations have been found to be the most suitable agency for the management of public industrial enterprises, since they provide the requisite amount of government control and yet give the flexibility and discretion needed for the successful operation of a business concern.

It is not possible, in a short working paper, to describe the achievements in the field of public industrial enterprises in the ECAFE region, or to examine, in detail, the experience of each country. This information will be found in the country papers and other basic documents to be circulated at the Seminar. It will, perhaps, be more profitable to concentrate on the manner in which most of the governments of this region have, in practice,

managed their public industrial enterprises, the obstacles that have been faced, the manner in which they have been overcome, the defects and deficiencies that have become apparent, and the extent to which the less fortunate countries might benefit from the experience of those that have had some success in the development of industry in the public sector.

Public industrial enterprises in the ECAFE region have been criticized on the ground that several of the projects were not properly surveyed and investigated, that cost estimates were inaccurate, that sufficient care was not taken in the selection and installation of the plant and machinery, that government control hampered the efficient operation of the factories, and that, in most cases, the staff had neither the qualifications nor the training for efficient operation. Consequently, many of the state-owned projects are alleged to be working at a loss, and the only sensible course for these governments was to extricate themselves as quickly as possible and transfer these industries to private management. It is possible to cite instances from the various countries of this region in support of one or more of these criticisms, but, taken as a whole, the picture painted is too gloomy and biased. It would be equally easy to prepare a catalogue of public industrial projects which have achieved notable success despite heavy odds. The indictment also overlooks the fact that, in the conditions obtaining in most of these under-developed countries, private enterprise could not have done any better. In fact, in the absence of state intervention, no industrial development would have taken place at all. The solution lies in improving the management practices of public undertakings rather than in curtailing the growth of the public industrial sector.

SURVEYS AND INVESTIGATIONS

It is often said that there has been a tendency, in the ECAFE region, to set up publicly owned industries in a haphazard manner, and that projects are not adequately surveyed and investigated. There is some force in this contention. In their anxiety to industrialize rapidly, and to catch up with the West, a number of governments in the ECAFE region have gone ahead with new industries without a comprehensive survey of raw materials, the availability of suitable factory sites, power, water, transportation, skilled labour and of the other components that go to the making of a successful industrial venture. Consequently, some of these projects are poorly engineered, while others are technically, economically or financially unsound.

Apart from the need for a comprehensive and well co-ordinated economic development plan, a prerequisite for successful industrialization of under-developed countries is a survey of industrial raw materials and other necessary facilities. After the industrial investment opportunities have been identified, it is necessary to carry out detailed investigations into the technical feasibility of each project, and to prepare a comprehensive project report dealing with the suitability of the proposed factory site, the availability of raw materials, skilled labour, and other services and an assessment of the economics of the scheme. Particular care should be exercised in the preparation of estimates and the layout design and specifications of the plant. The greater the care exercised at this stage, the greater are the chances of the project proceeding smoothly and becoming a sound and profitable undertaking.

To facilitate survey and investigations of projects it would be useful to provide the public corporation or other agency set up for this purpose with a revolving fund to be recouped as and when a project is finally approved by the Government. This device has been successfully used by the Pakistan Industrial Development Corporation for sponsoring a number of suitable industrial projects and undertaking any proposal which meets with government approval without any unnecessary loss of time

The problem of location of new industries merits careful consideration. While public authorities must necessarily give due weight to all relevant

technical and economic considerations which influence a private entrepreneur, they may also consider other factors such as the need to ensure balanced economic development in the country, or to assist a backward region, and to avoid excessive concentration of industry in a few urban centres. The establishment of a mill in an outlying area might be more costly than in a large city, but the indirect benefits which would accrue to the national economy might compensate for the higher initial outlay.

EMPLOYMENT OF FOREIGN CONSULTANTS

There should be no hesitation to employ foreign consultants in the survey and engineering work relating to large or complicated industrial schemes which are beyond the capacity of local engineers. The extra expenditure involved in the employment of foreign consultants is more than offset by the savings which will result from the selection of a proper site, the accurate preparation of estimates, and the purchase of the right type of plant and machinery. Great care, however, needs to be exercised in the selection of competent foreign consultants and in the drawing up of the terms of the consultancy agreement. Cases are known where under-developed countries have been badly disappointed by inexperienced and unscrupulous consultants, and consultancy agreements have been found to be expensive and somewhat one-sided. It will be of great help to the members of the ECAFE region if the United Nations Economic Commission for Asia and the Far East could maintain a list of suitable and experienced consultants from all over the world. This should be based not merely on their general reputation in their home countries but also on reports of their actual performance in the countries of the ECAFE region.

There is also a need for further study of the form and contents of consultancy agreements with a view to protecting the interests of the employing countries, while retaining the necessary incentives and freedom of operation for the industrial consultants. The more essential safeguards are to ensure that the consultants have adequate staff, that they have had practical experience in the design and erection of industrial plants not only in North America and Europe but also in the less developed countries of Asia, Africa or South America. The consultancy agreement should extend to the surveying or checking the preliminary investigations already carried out by the local engineers, the preparation of a comprehensive project report, the drawing up of specifications, designs, and plants layout, and so on. In preparing these specifications, care should be exercised to see that the selection of the plant and machinery is not restricted to any one make or country, and that a wide choice is available both in respect of quality and price. The consultant should also be required to assist in the preparation of invitations to tender and in the adjudication of the tenders received. Other provisions of the consultancy agreement must necessarily depend upon the nature of each industry, the size of the investment involved, and the extent to which the country concerned is able to undertake the project on its own. Normally, it is a wise safeguard to have the assistance of qualified consultants in inspecting the plant and machinery received from the manufacturer, in supervising the erection of the plant and the performance tests, the training of local staff and, if need be, the initial operation of the plant. In the case of a really large and complicated industrial venture, it might be worth while to enter into turnkey contracts with the manufacturers. These contracts provide not only for the supply of plant and machinery and the training of technical staff, but also for the operation of the plant for two or three years. To make such a contract effective, it is necessary to provide for performance guarantees both in respect of the time scheduled for the completion of a project and for assuring rated production with a specified period of time.

SELECTION OF PLANT AND MACHINERY

Some of the operational difficulties experienced by public industrial enterprises are due to the selection of plant and machinery not properly

suited to the conditions of under-developed countries, as sufficient care is not taken at the outset to ensure that the size of the plant is commensurate with the potential market, and yet is sufficiently large to ensure economic cost of production. National pride has occasionally led to some of these enterprises being made into expensive showpieces. In some other instances, the plant was basically too small to produce the manufactured goods at competitive prices. Another common failing is the tendency to buy the most modern and automatic machinery available in Western countries, overlooking the fact that such plant may not be appropriate in countries where labour is cheap but lacks technical skill and operating experience. While it is essential that modern and up-to-date machinery should be purchased, it is no less important to ensure that the plant is suitable for the climatic and other conditions of the countries of south Asia and the Far East. Since most of these countries are short in foreign exchange but have an abundant labour supply, it would be advantageous to utilize labour-intensive rather than capital-intensive plant and machinery. The saving in wages resulting from the use of highly automatic machinery in the United States and western Europe is frequently offset in under-developed countries by the high initial capital cost of the equipment and the practical difficulties experienced in operating the plant with comparatively uneducated and unskilled workers. In most of these countries, it might be preferable to utilize the less automatic but well tried machinery which can be easily operated and maintained by the workers and foremen normally available in the newly industrialized countries.

When buying plant and machinery, it is also important to order adequate quantities of spare parts and replacements. This is particularly necessary in the case of state-owned enterprises which, as a matter of public policy, are set up in outlying areas, away from the large towns in which agents of manufacturers and other local distributors of spare parts are normally to be found.

A further precaution in the case of large factories is the provision of adequate workshops where necessary repairs can be carried out, and in which it might be possible, in course of time, to fabricate simple parts and other equipment needed in an emergency. Numerous cases have been reported where publicly owned factories have stopped production for want of relatively inexpensive equipment or spare parts. on the other hand, one must also avoid building up large inventories of stores, as this results in unnecessarily locking up of capital and is reflected in high overhead costs. It is here that technical knowledge and operating experience proves most useful in ensuring adequate provision of essential requirements without excessive outlay of working capital.

PERSONNEL PROBLEMS OF PUBLIC ENTERPRISES

It has been stated that the management and operational staff of public enterprises is often not well qualified, and that these concerns are overstaffed in comparison with similar privately owned plants. The terms and conditions of service of state-owned factories are also considered inappropriate for business and industrial ventures. Moreover, government-owned factories find it more difficult than private industrialists to discharge surplus labour.

There is a considerable measure of truth in these criticisms. Apart from Japan, and a few other industrially advanced countries, most of the countries in the ECAFE region are short of experienced managers, engineers, chemists and other technicians. Therefore, there is a tendency on the part of the governments concerned to utilize active or retired civil servants with little or no previous experience of business and industrial management. There is also a tendency to follow civil service and other regulations in the recruitment, promotion, and discharge of factory employees. Even in countries where the management of public enterprises has been entrusted to semi-autonomous corporations which are free to devise their own personnel policies, "the civil service mentality" tends to prevail with regard to appointments, promotions, fixing pay scales, and so on.

While one must admit the validity of this criticism, the remedy is not easy to find. Large-scale use of civil servants in state industrial enterprises is often not a matter of choice but of necessity. Experienced industrial and business managers and accountants are simply not available. Some stopgap arrangements have, therefore, to be made if under-developed and backward countries are to embark on the industrial road. These countries would, however, be well advised to employ experienced foreign technicians to be in charge of important departments and to supervise the work of young local engineers, chemists and other staff. Administrative and other non-technical posts could appropriately be filled by suitable civil servants until such time as the younger generation acquires the requisite training and experience. Countries which propose to expand the public sector, and to undertake an increasing number of large industrial projects, would find it advisable to follow the example of India, and set up an Industrial Management Service for running state industrial enterprises and other commercial undertakings, such as railway workshops, power stations and other public utilities. It is, however, essential that the terms and conditions of service, the method of recruitment, promotion, and discharge of employees in such enterprises should approximate the conditions obtaining in private industry and business, rather than to those of government departments. It is particularly important that the management and supervisory staff should be selected with due regard to the requirements of the particular industry or operation, and that promotion should be on the basis of qualifications and merit rather than on length of service and seniority. Government must also provide for incentives such as profit bonus and production bonus which contribute so much to the efficiency and profitability of privately operated concerns.

As regards the size of the labour force, governments should be guided by the advice of experts as to the number and categories of men required for the efficient operation of each plant. Plant managers should have full powers to discharge inefficient and surplus workers. Nothing is more damaging to the prestige of management and the efficiency of the enterprise than lack of discipline in a factory or the retention of unwanted employees under political pressure. If a government finds it necessary to provide employment in a depressed area, it should undertake useful public works rather than insist on the retention of large labour force in excess of the requirements of its industrial enterprises.

TRAINING

Closely allied to the problem of recruitment of personnel for public enterprises is the need for training. This is necessary at all stages, from the general manager of the plant right down to the unskilled worker. The necessity for training has been generally realized in the ECAFE countries, and training programmes find a prominent place in their development budgets, as well as in the capital cost and operating expenses of large state-owned factories. While basic education in an engineering college or school of business administration is helpful, the most useful training is that obtained while working in the plant either at home or abroad. The technical assistance provided by the United Nations, the Colombo Plan countries, the United States and other aid-giving countries could be utilized to advantage. In view of the known reluctance of private manufacturers in industrially advanced countries to outsiders in chemical and other plants, it is a wise precaution for under-developed countries to obtain a contractual commitment from manufacturers to train the future operating staff in their factories. The normal training in such cases is to select the local team of engineers, chemists, etc. with the help of consultants, to send them initially to the plants where the machinery and equipment is being manufactured, and subsequently to the factories where similar machinery is already in operation. These men then return, along with the assembly team supplied by the manufacturers, and assist in the erection and initial operation of the plant. The foreign experts are normally retained till the plant has come into operation and has passed the guarantee tests. In the case of large

undertakings, such as a fertilizer factory, a steel mill, or a newsprint plant, it might be worth while to retain the top level experts of the manufacturer or consultants until the factory has overcome all its teething troubles and is operating smoothly. If, even at the end of that period, the local personnel is not sufficiently trained to assume responsibility for the operation of the plant, it would be advisable to retain some of the foreign experts as technical managers and heads of important departments.

The training of foremen and supervisors, of skilled and unskilled workers is not less important than the training of managers, engineers and chemists. This is best done in the plant itself, so as to save the expense of sending a large number of men abroad and familiarizing the employees with the machinery and equipment. One could also take advantage of the facilities provided by polytechnics, technical schools, and labour training programmes adopted by most ECAFE countries with the help of the ILO and other international organizations.

MARKETING

While a fair amount of attention has been given to production problems, there is a tendency for government planners of industrial enterprises to neglect arrangements for marketing. Civil servants also lack the initiative and drive in marketing their products which is characteristic of well-run private business concerns. It is essential that, before an industrial project is undertaken, there should be a careful market survey of the potential demand for the manufactured products, of the likely competition from other manufactures and substitutes, changing consumer tastes, and all other considerations which are pertinent to the determination of the size of the factory and the price range of its products. There should also be an assessment of the best method of distributing the finished product. Some public owned factories might be in the happy position of selling all their production to government consumers at an agreed price, but those which have to cater to the general public cannot afford to neglect the commercial arrangements for the distribution and sale of their products. The actual arrangements to be made must necessarily vary for each product, but as far as possible, the government should avoid becoming involved in the distribution line, and should leave this work to more experienced traders and shopkeepers.

The public enterprises must also maintain close contact with their consumers by the issue of suitable literature and advertisements with respect to their products, by attending promptly to all enquiries and complaints, and by earning the goodwill of their consumers by maintaining the high standard of quality of their products and yet keeping the prices at a reasonable level.

ACCOUNTS AND BUDGETARY CONTROL

It has been mentioned already that public enterprises tend to become overcapitalized as a result of inadequate care in the purchase of plant and machinery and the provision of luxurious office and residential buildings in excess of the basic requirements of the industry. Moreover, in their efforts to act as a "model employer" and to gain popularity, governments tend to incur considerable expenditure in providing housing colonies, schools, hospitals and other social amenities, which do not have to be provided by most private industries.

The financial soundness of public undertakings is further affected by the failure to provide for adequate control of operational expenses, the maintenance of accounts, the introduction of a costing system, internal audit etc. On the other hand, government budgetary and account procedures are not well suited to industrial enterprises.

Experience has shown that the best course, in such circumstances, is to follow the sound and well tried procedures used by commercial and

industrial enterprises in industrially advanced countries. Just as it is essential to have detailed estimates before a project is sanctioned, so also it is necessary to obtain annual budget estimates and production programmes when the factories commence to operate. This should be followed by periodical returns enabling the management to keep a close watch over income and expenditure, and to be able to take prompt remedial action where expenditures are very much out of line with the approved estimates. This also necessitates the establishment of accounts and books on commercial lines, and the employment of well-qualified accountants, cost accountants, auditors and so forth.

Apart from such internal financial controls as might be introduced, there is a need for the employment of commercial auditors to check the accounts and to certify the correctness of the annual balance sheets and profit and loss accounts. As a further safeguard for the proper use of public funds, several governments have thought it desirable to supplement the commercial audit by a test audit by the country's Comptroller and Auditor-General. This is a wise precaution, but it is necessary to point out that the government auditor should never lose sight of the commercial character of the public industrial undertakings, and that normal governmental rules and practices should not be applied to judge the action of directors and mill managers in the conduct of their day-to-day operations. If government audit rules are followed too rigidly, or if there is too great a tendency to question the decisions of industrial managers, the result would be to hamper the operation of these enterprises and to deter directors and mill managers from taking policy decisions. In the running of a business, it is better to make occasional mistakes than to put off awkward decisions or refuse to take risks.

SUPERVISION OF PUBLIC ENTERPRISES

The problem of supervision of public enterprises has given rise to considerable controversy. As these projects are financed with public funds, there is a natural demand that the management should be accountable to the government and the legislature of the country. On the other hand, rigid government control, or excessive interference by government officials, would tend to hamper the smooth running of the enterprise. The government should certainly approve the initial project and subsequent expansion scheme, as well as the terms and conditions of services in the corporation and other major issues of policy. The government should also receive the annual reports and audited accounts and other essential information. Government direction and control should not normally go beyond this stage, and the day-to-day operations should be left to the Board of Directors of the corporation or company. The Directors should similarly limit themselves to broad questions of policy, approval of operational budgets, production programmes, large contracts for supplies and the appointment of senior officers. They should delegate all other powers to mill managers.

TRANSFER OF PUBLIC INDUSTRIAL ENTERPRISES TO PRIVATE OWNERSHIP

It is the declared policy of many of the countries in the ECAFE region, which have set up public industrial enterprises, to part with them at the earliest suitable opportunity. To achieve this objective it is necessary that the projects should be well conceived and profitably run. An effort should be made to attract private capital into these ventures from the beginning. If private participation is not forthcoming at the outset, the effort should be renewed after the project has been completed and the plant brought into production. At this stage, either the factory may be sold to a private industrialist or group of industrialists willing to pay a reasonable price and possessing the requisite managerial ability, or the project should be converted into a public limited company and the shares offered to the public. Both these devices have been successfully tried out in Japan, Pakistan, Philippines, and a number of other countries.

New India Press, New Delhi.

SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

DEVELOPMENT OF PUBLIC INDUSTRIAL ENTERPRISES IN BURMA

BY
KHIN MAUNG LWIN

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Paper No. 22

DEVELOPMENT OF PUBLIC INDUSTRIAL ENTERPRISES IN BURMA

By

KHIN MAUNG LWIN*

Until recently industries known to the people of Burma were only those connected merely with the extraction of forest products and processing of agricultural crops. When the Government of Burma established the Industrial Development Corporation in late 1952, modern industries began to appear for the first time in the history of the country. The year 1953 may be considered as the beginning of the industrial era of Burma.

INDUSTRIAL DEVELOPMENT CORPORATION

The Industrial Development Corporation (IDC) was established in November 1952 by the Government of the Union of Burma. Its statutory obligations consist of promoting the establishment and the development of industrial enterprises; preparing programmes for development of industries consistent with the overall economic development programme; storing, marketing and distribution of the products of its industries; opening instructional classes; providing means of general education on industries; making experiments and undertaking research work.

Experience gained during the first five years of operation under the provisions of the IDC Act of 1952, showed that certain provisions were defective and inadequate and amendments thereto as well as insertion of new provisions became absolutely necessary for the efficient discharge of the functions and duties envisaged in the Act. A new Act was therefore passed by the Parliament entitled the Industrial Development Corporation Act, 1957 (Burma Act 14 of 1957) in March 1957 and the earlier IDC Act of 1952 was thereby repealed. More rights and powers are vested by the new Act with the IDC relating to its activities of issuing loans to private industries, in calling for repayment and in cases of defaults.

The IDC is controlled by a Board of ten directors, for the present consisting of three ministers, six top-ranking officials of the various related government departments and organizations, and the Director General of the Corporation. The Director General carries out the executive functions as directed by the Board as the Chief Executive in the organization.

Since its inception, the Corporation has undertaken major industrial enterprises in consonance with the Government's policy of economic self-sufficiency and saving of foreign exchange, by nationalization and establishment of new projects. The new industries so far established by the Corporation are as follows :

(1) Steel Rolling Mill;

*U Khin Maung Lwin is the senior Executive Officer of the Pyinmana Sugar Mill.

(2) Burma Pharmaceutical Industry;
(3) Jute Mill;
(4) Textile Mill and its Extension;
(5) Extension of Thayetmyo Cement Factory;
(6) Pyinmana Sugar Factory;
(7) Namti Sugar Factory;
(8) Tea Blending and Packing Factory;
(9) Silk Reeling Factory.

In addition to the above industries, the following industries were nationalized by the Government and placed under the management of the Industrial Development Corporation :

(1) Thayetmyo Cement Factory;
(2) Brewery and Distillery Factory;
(3) Zeyawaddy Sugar Factory.

One Engineering Workshop was also taken over by the Corporation from the Kachin State Government and was transformed into the Engineering Industry Project to function as a base workshop for other industries and to develop into engineering industry, manufacturing tools and small equipment needed for the healthy growth of the newly developed industries.

IDC has also gone into a joint-venture with the Lever Brothers Ltd. and jointly formed the Burma Unilever Ltd. to establish and operate a modern soap factory near Rangoon. The Soap Factory is now under construction and it is expected to start operation by the middle of 1960. The Mill will have a capacity of producing about 5,000 tons of soap annually. Out of the estimated capital of K 8 million IDC is taking 25% as its share.

Until recently there were 19 subordinate boards and committees constituted by the IDC for managing the affairs of the above mentioned industrial enterprises and implementation of industrial projects.

A few months after the change of the Government in late 1958 the policy of the IDC was drastically changed and one of the important changes is the abolition of these subordinate boards and committees. These subboards were replaced by Chief Executive Officers who deal directly with the Director General of the Corporation. The autonomy given to the subboards regarding procurement of raw materials, employment of workers and staff was taken back by the Director General and all such matters are considered and decided by the committees such as "Procurement Committee" which considers all proposals for procurement of materials and equipments, and "Works Committee" which considers and approves all proposals for construction of buildings, roads, repairs and maintenance of civil engineering works. The new policy has brought about a change from decentralization to centralization of all procurements and works programmes in the IDC. Appointments of workers and staff are also controlled by the Director General by requiring all Chief Executives of the industries under IDC to submit the requirements of workers and staff for operation of their respective industries for approval. The appointments can only be made within the approved setup. In the past, all sub-boards had the administrative powers to approve the work force of the industry and were given the financial powers to sanction all proposals for purchase of required raw materials and equipment.

By the end of 1959/60 fiscal year (ending 30 September) the total capital investment of IDC will be of the order of K 298.2 million for all of its industrial enterprises and projects. The investment by industries under IDC and as well as other state owned industries are as shown below :

TABLE A

Capital Investment of Projects under IDC and other State industries

(estimated up to end of 1959/60 fiscal year)

		Kyats in Lakhs
1.	Steel Rolling Mill	362.71
2.	Jute Mill	330.30
3.	Zeyawaddy Sugar Mill	18.11
4.	Pyinmana Sugar Mill	212.07
5.	Namti Sugar Mill	157.92
6.	Cement Mill (existing)	84.79
7.	Cement Mill (extension)	402.41
8.	State Brewery & Distillery	22.71
9.	State Tea Project	31.47
10.	Engineering Industry Project	83.78
11.	Silk Project	33.92
12.	Textile Mill and its Extension	262.44
13.	Compensation for nationalized industries	210.00
14.	Soap Factory (Joint Venture)	31.80
15.	Burma Pharmaceutical Industry ..	645.98
16.	Brick and Tile Factory	91.44
	TOTAL	K 2,981.85
		or K 298 million

TABLE B

Government's Investment in Private Industrial Enterprises
(Between 1952/53 to 1958/59)

		Kyats in Lakhs
1.	B.O.C. (Joint Venture)	447.52
2.	Anglo-Burma Tin (Joint Venture) ..	11.45
3.	Mawchi Mines (Joint Venture)	73.15
	TOTAL ..	K 532.12
		or K 53.2 million

It will be noticed from the above two tables that the Government has made investment in industries in the order of K 351.4 million during the eight-year period of 1952/53 to 1959/60.

The IDC now employs over 10,000 people in its newly established industries. The role of each of the industries under the IDC may be gauged from the following brief descriptions:

(*a*) *Steel Rolling Mill*

The construction of the Steel Mill commenced in January 1955 and its initial operation was started stage by stage, and the entire mill was functioning by the end of 1958. The Mill has one 12-ton Electric Arc Furnace, Medium and Light Section Mills, Sheet Mills and Wire processing machineries. The Mill is designed to produce 20,000 tons of steel ingots and slabs from scrap accumulated during the war, and these ingots when processed

will produce about 16,000-17,000 tons of various steel products, such as, M.S. rounds, sections, angles, flats, wire nails, wood screws, galvanized wire, barbed wire, bolts, nuts, rivets, corrugated galvanized iron sheets, M.S. sheets and galvanized plain sheets. The total value of products to be produced by the Mill is estimated to be around Kyats 20 million a year which will effect considerable savings in foreign exchange.

During the time of the initial operation of the Steel Mill the IDC was assisted by German technicians provided by the Government of the Federal Republic of West Germany under the Technical Aid Agreement between the two countries. About 40 promising young Burmese trainees were sent out to India and West Germany prior to the initial operation of the Mill, and after about one year of operation young Burmese engineers have been able to take over the key positions in the Mill. The IDC has now released all Indian technicians working at the Steel Mill and only retained 4 out of 12 German technicians provided under the aid agreement, as local engineers have gained sufficient training to carry out the normal operations of the Mill. At the time of the trial running of the Mill valuable help was also received from an UN Steel Expert Mr. J. M. Smith who worked for the Mill for about 1 1/2 years. Messrs. Tata Iron and Steel Co., National Iron and Steel Co., of Calcutta and Indian Steel and Wire Products Co., of Jamshedpur were very helpful to Burma's first Steel Plant by training the young Burmese engineers and technicians in the field of steel making and manufacture of steel products.

(*b*) *Burma Pharmaceutical Industry*

The Burma Pharmaceutical Industry was conceived as a social welfare measure to raise the health standards of the people of Burma by ensuring supplies of essential pharmaceuticals such as vaccines, sera, alcohol, yeast tablets, etc., covering a variety of over 140 items.

The buildings alone cost about Kyats 40 million and equipment another 17.5 million Kyats. The well-known British firm of Evans Medical Supplies Ltd., were engaged as the Managing agents to make available to the Government of the Union of Burma all drawings, designs, plans and technical services, planning and marketing data and general "Know-how" necessary for the establishment, erection and installation of plant and commencement of production of the pharmaceutical and other products. The construction and supervision were undertaken by British engineers and architects.

The alcohol plant which operates as a supplement to the main production building is scheduled to produce more than 2,000 gallons of medical or commercial alcohol daily. In addition to alcohol, a wide range of glanicals and biologicals one million tablets of vitaminised yeast were produced at the factory. The Government distributed these yeast tablets free among the vulnerable groups, *i.e.*, old and infirmed, expectant mothers and undernourished children as supplement to their food. It is expected that the total production value will run up to Kyats 14 million a year making a substantial saving in foreign exchange.

Although the contract with Evans Medical Supplies Ltd., runs up to 1960, the IDC has now terminated the services of Evans personnel as it is felt that the local Burmese technicians are now capable of operating the industry on their own.

As the successful operation of the Burma Pharmaceutical Industry depends much upon the availability of raw materials within the country, the management of the industry has set up an important project known as "Raw Materials Project". Valuable research work is being carried out under the capable supervision of an UN Expert Dr. A.S. Nordal.

(*c*) *Jute Bag and Twine Mill*

Burma used to import annually about 40 million gunny bags. As the rice crop increases, the demand for gunnies will increase. The IDC has

therefore established a Jute Bag and Twine Mill at Thamaing, a suburb of Rangoon, with a capacity sufficient to produce 24 million heavy "C" gunny bags per year. The trial running of the factory was started in September 1956 and now it is running in full swing.

The plant consists of a silver spinning high production jute bag Mill, with 508 semi-automatic flat looms and 12 circular looms supplied by two British firms. The Mill is now employing about 2,400 workers in two shifts.

Since the domestic supply of raw jute is still below the mill's annual requirement, it is required to import raw jute from Pakistan for the present operation of the Mill. It will be possible to reduce the imports of raw jute gradually as the production of domestic raw jute increases as a result of the intensive drive for jute cultivation in the country, currently undertaken by the Land and Rural Development Corporation. It is hoped that this Mill will eliminate the need for importing gunny bags required for the country's rice industry and also provide a stable and profitable market for a relatively new crop in Burma—the growing of jute.

(*d*) *Textile Mill and its extension*

This plant was completed in 1951 and now contains 20,000 spindles and 200 looms purchased from the USA. The IDC purchased an additional 20,000 spindles and 200 more automatic looms from the People's Republic of China and added to the above mill, bringing up the total to 40,000 spindles and 396 looms. The expanded mill now produces 3.4 million pounds of No. 20 yarn annually, and 4.05 million yards of cloth, consisting of drills, canvas, towelling and sheeting. Foreign exchange to the order of K 6 million is saved per year.

(*e*) *Pyinmana Sugar Mill*

This is one of the two sugar mills set up by IDC very recently, the other being Namti Sugar Mill situated near Myitkyina. Construction work started in February 1955 and the Mill was put on test running in December 1956. The entire mill is of Japanese make. The Mill is now operated to its full capacity of about 150 tons of refined sugar per day or about 22,500 tons per season of 5 months a year.

(*f*) *Namti Sugar Mill*

Construction of this Mill was started in February 1955 and it commenced initial operations during the cane season of 1956-57. The Plant has the capacity of producing 100 tons of refined sugar a day or 15,000 tons per year. The machinery were supplied by a Dutch firm.

(*g*) *Zeyawaddy Sugar Factory*

This factory was originally owned by an Indian concern and it was nationalised on 1st November 1954 and was placed under the management of the IDC. After the nationalization IDC has made many improvements by replacement of machinery and equipment and in undertaking new construction works in the Mill. The Mill is now producing roughly 22,000 tons of sugar per year.

Burma consumes about 45,000 tons of sugar a year. Total annual capacity of the above three sugar mills will be about 60,000 tons or enough to meet total present requirements as well as the additional requirements arising from an improving standard of living. Moreover, production costs will be such as to provide good returns to the cane-growers, reasonable prices to the public and moderate profit to the government for its investment.

(*h*) *Thayetmyo Cement Factory*

This Mill originally owned by a British Concern, was nationalized on 1st August 1954 and placed under the management of the IDC. The IDC has now started the extension of the Mill and when completed the extended

Mill will produce 180,000 tons per annum, three times the present capacity of 60,000 tons a year. At present the country is importing about 50,000 tons of cement every year supplementing the domestic production of 60,000 tons per year.

(*i*) *State Brewery and Distillery Factory*

This factory was nationalized by the Government on 1st October 1954 and is now managed by the IDC. The factory is producing bottled beer, bottled spirits, country spirits, methylated spirit and also a special rum for the Burma Army. At present the capacity of the plant is—spirits 180,000 gallons (297,000 proof gallons) at 96 per cent pure alcohol equivalent to 396,000 gallons of 25 U.P. selling strength, and beer 648,000 gallons per year.

(*j*) *Tea Blending and Packing Factory*

The construction of the factory was started in January 1955 and initial operations commenced in March 1956. This factory has the capacity of producing 3 million pounds of blended and packed tea per year. The main object of setting up this factory was to ensure that the general public got high-quality tea by blending domestic tea with imported tea. At the same time it is aimed at reducing the quantity of imported tea gradually as and when the quality of domestic tea is improved. The Lipton Tea Company Limited was its managing agents during the first two years of initial operation and recently the present General Ne Win's Government has suspended the operations of the plant in order to investigate into the causes of continuing losses by the factory. It is hoped that the factory will resume its normal operation when the decision is made by the Government as to how changes should be made in the methods of operation and distribution of its products.

(*k*) *Silk Reeling Factory*

The silk project, which is now in operation consists of (*a*) the silk reeling factory at Maymyo, and (*b*) the establishment of sericulture industry (comprising cultivation of mulberry plants and silk worm rearing) at various centres in Burma. The Silk Reeling Factory at Maymyo has a capacity of producing silk yarn 500 bales (135 lbs. per bale) per year. The factory was completed in October 1956. Since the silk worm rearing centres in Burma are not able at present to produce a sufficient quantity of silk cocoons, the factory is required to import silk cocoons from abroad for its continuous running. However, more supplies of silk cocoons are coming in from the silk worm rearing centres and gradually less and less imports and silk cocoons will be required.

(*l*) *Engineering Industry*

This project was taken over by the IDC from the Kachin State Government and it has been transformed into an Engineering Industry with a view to producing tools and implements needed for the gradual growth of the newly established industries. It has been functioning as a basic engineering workshop for IDC's industries in the assembling, repairing and maintenance of machineries and heavy equipments. Presently it is also producing kerosene stoves for the general public. It is hoped that in the near future this industry will be in a position to produce agricultural implements and tools at reasonable cost.

(*m*) *Brick and Tile Factory*

This is a factory which is still out of the managerial control of the IDC. It was initiated by the Ministry of Housing prior to the establishment of IDC and was first under the control of the Housing Ministry, and later under the administrative control of the Ministry of Industry. It is, however, expected that this mill will also be placed under the management of IDC within the near future.

The plant is designed to produce 6 million tiles and 4 to 8 million bricks annually. The products of the factory, especially bricks are now well received in the local markests and are noted for their good quality compared to other similar products produced by private firms. The total cost of the mill is estimated at K 9.8 million.

PRODUCTS OF THE STATE INDUSTRIAL ENTERPRISES

The following table provides a summary of the main products of the State Industrial Enterprises:

TABLE C

Products of the State Industrial Enterprises

Projects	*Products*	*Unit*	*1957-58*
Cotton Mill No. 1	Yarn	(000) lb.	3,562
Cotton Mill No. 2 (extension)	,,	,,	1,217
Jute Mill	Gunny bag	(000) No.	11,344
Namti Sugar Mill	Sugar	Ton	8,442
Pyinmana Sugar Mill	,,	,,	10,416
Zeyawaddy Sugar Mill	,,	,,	21,078
Cement Mill	Cement	,,	30,021
Brick & Tile Factory	Brick	(000) No.	6,173
,, ,, ,,	Tile	,,	1,301
Steel Rolling Mill	Steel Products	Ton	3,512*
State Brewery	Beer	Gal.	351,618
Spirit ,,	Spirit	,,	248,154
Tea Project	Tea	Lb.	1,351,705
Silk Project	Silk yarn	,,	14,109

*Production since initial operation up to 30th September, 1958.

TABLE D

Various Products Produced by B.P.I.

S.No.	*Commodity*	*Unit*	*1957-58*
1.	Solid	Kilos	83,791
2.	Liquid	Litre	122,611
3.	F. Yeast Tablet	Tab.	306,430,400
4.	Other Tablets	,,	98,978,100
5.	Ointment	Kilos	10,210
6.	S. Preparation	Litre	1,744
7.	Dist. Water	,,	96,102
8.	Alcohol B/P 95%	Gal.	311,047
9.	De Spirit	,,	41,688
10.	Industrial Methylated	,,	..
11.	Injection	Amp.	3,818,290
12.	Media	Litre	477
13.	Vaccines Lymp	Dose	1,611,664
14.	Vaccines	Amp.	96,846

THE STATE POLICY AND PLANNING FOR INDUSTRIALIZATION

As stated earlier, the Government of Burma has actively participated in promoting industrial development in the country since the beginning of the

year 1953. Basic industries such as electric power and all forms of transportation except road transport, have been operated under public ownership and control. In addition to setting up the industries mentioned above, the Government has also entered into joint ventures with some foreign firms such as Burmah Oil Co., Burma Corporation (Lead and Zinc Mine), Anglo-Burma Tin Co., and Lever Brothers. The Government also contemplates entering into joint ventures with Japanese Firms to set up two spinning and weaving mills. Attention is also given by the Government to setting up a Fertilizer Mixing Plant having a capacity of 50,000 tons of superphosphates a year, which, when mixed with imported ammonium sulphate, will yield 100,000 tons of mixed fertilizer a year. Of the total estimated cost of K 5.5 million, Burma has received from New Zealand under the Colombo Plan £100,000 sterling (K. 1.33 million) towards the cost of this project.

Steps are also being taken by the Government to extend the present Steel Mill which can now make steel from iron scrap only. A West German firm has been engaged to undertake a field survey and report on the iron ores and coal deposits in the country, as also advise on location and processing methods for smelting of iron ores into pig iron and then manufacturing into steel.

There has also been encouragement of private industries through loans and hire-purchase arrangements and through providing free technical services. In mid-1955 the government announced its policy with respect to private investment. In that policy statement the government recognized the contribution which productive private investment can make to the economic and social progress of the country. The response of domestic investors has been gratifying. During the last few years the requests for import licences for machinery to be used in local manufacturing enterprises have exceeded by a substantial amount the levels of earlier years. The government has therefore increased substantially its foreign exchange allocations for this purpose.

Owing to the scarcity of indigenous capital for investment in large scale industries and lack of capital market, the Government was somewhat compelled to engage in setting up large scale factory industries, while small scale and cottage industries naturally were left to be undertaken by the private sector. As the market in Burma is necessarily limited there is of course a natural limit to scale of even the so-called large scale industries. Since the Government is making investment in the large scale factory industries where the private industrialists cannot afford such investment, the investment in the field of small scale, medium scale industries and handicrafts are left for private capital. Measures adopted by Government to foster small scale and handicraft manufactures are mostly in the form of financial and technical assistance.

PROBLEMS OF PUBLIC INDUSTRIAL ENTERPRISES

MANAGERIAL PROBLEMS

(*a*) *Lack of Managerial Skill.* The topmost problem and the one for which solution has not yet been found is the lack of experienced executives to manage the newly established industries of the State. Burma has suddenly found herself with large industries without having sufficient trained executive to run them efficiently. The Burmese, who had been working in privately owned industries are not willing to work in the state owned industries as the terms of employment in the state industrial enterprises are far less attractive than the terms offered by private large industrial concerns. The pay scales of executives working in the public industrial enterprises are kept in line with government civil service pay scales, the highest of which do not rise more than K 1,600 per month. Whereas, in the case of private large industrial concerns, the second line top executives may draw a salary somewhere between K 2,000 to K 3,000 per month. It now appears that the State-scholars trained abroad by the Government in the field of industrial

management are leaving the State industries after serving for the terms required in the bond (normally 5 years after returning from abroad) to join the private industries, as they find little incentive in the State industries. The Government has not been able to decide to introduce the bonus system in the State owned industries while executive in many private industries enjoy the same. It is feared that if the Government cannot find the right solution to this problem many of the promising young executives now working in the newly establishing public industrial enterprises will be found in the private industrial concerns within the foreseeable future.

(*b*) *High rate of turnover of Executives and Technicians*

The situation of the above mentioned problems of shortage of trained executives is somewhat aggravated by another serious problem of frequent shifting of young executives and engineers from one industry to another. The Government has not drawn up terms and conditions of service for the supervisory staff in most public industrial concerns. This has led to some confusion and at times has become a source of grievance among young executives.

Since the Government is hard put to find trained top executives to manage a new State industrial concern a senior civil service official is usually appointed as a General Manager or the Chief Executive Officer to head the industry about which he has no previous first-hand knowledge. In many cases a retired civil servant has been selected to head the new industry. The art of mangement of an industrial enterprise has been learnt through the trial and error method and by the time some knowledge is gained about management, the official is either forced to leave the job for reasons of health or he just becomes tired of struggling hard in the midst of problems pressing for immediate decision and goes back to his civil service post.

Technicians are also found to be leaving the State industrial enterprises for more attractive jobs in the privately owned industries. The Government has sent out every year a large number of State-scholars and trainees abroad with the condition that they work for a specific period (normally 5 years) after their return from abroad. Once the contractual period expires there is a temptation to leave services. The situation now seems to be that the Government industrial enterprises are the real training centres producing promising young executives and technicians for the private industrial concerns.

In order to meet this problem the Government has now raised the compensation to be paid to the Government if a State-scholar fails to work for the Government for the bonded period from K 5,000 to K, 50,000. The Government now also restricts the transfer of young executives and engineers from one industry to another. Sometimes the Government has blacklisted executives and engineers who left their jobs in the State industries without prior permission to resign, so that they will not be employed by the State owned enterprises or enterprises closely connected with the Government.

(*c*) *Acute shortage of Qualified Accountants*

Due to the sudden rise in demand for qualified accountants by the newly established public industrial concerns there has been an acute shortage of qualified accountants. There are only two or three auditing firms of good repute which can entertain normally about 4 or 5 articled clerks preparing for Registered Accountantship. State industries were set up in most cases without having qualified accountants and sufficient accounting staff and are now having great difficulties in consolidating the accounts of the intial years especially accounts during the time of construction of the factories. Some industries are still unable to draw balance sheets for the years as far back as 1955/56 or 1956/57. The situation now seems to be improving as the young accountants are gaining experience during the last few years and the accountants sent out abroad on various educational schemes by the Government are joining back the State industries gradually.

In order to relieve the above situation the University of Rangoon is now giving a special course for commerce students so that they can specialize in accounting during their study at the University for the B.Com. degree. The University is also giving a special two-year post-graduate course for Administration and Management for those who are already working in industries and commerce.

(*d*) *Labour*

The Burmese industrial workers of today still have a long way to go to get themselves properly adjusted to the discipline of fast moving industrial life. Their slow way of life in the paddy field must be changed. They must be constantly urged and supervised by their supervisors to keep pace with the high speed machine. It is gratifying to know, however, that Burmese workers are quick to pick up their trade and have become proficient on their jobs within a short period.

Before 1958, workers were vulnerable to the political parties who organized them into trade unions for their political gain. Top executives, at times, found themselves in a difficult situation between unruly labourers and cabinet ministers who happened to be Trade Union leaders in their political life. At times, executives were rather reluctant to take stern disciplinary action against a union leader fearing that their action may displease the minister. This situation, however, is now totally changed under the present Government which makes it quite clear to the Trade Union leaders that they must dissociate themselves with politics. Union leaders are no longer treated as a privileged class among workers. Managements of the State industrial concerns are now free to take disciplinary action against workers and the situation is improving.

(*e*) *Spares and replacements*

Among the managerial problems the trouble of procuring spare parts and machinery for replacement seems to be one of the biggest headaches confronted by the management of State industrial enterprises. It is like large industries existing in the midst of paddy fields. Unlike their counterparts in other developed countries, executives of the public industrial concerns cannot just pick up the telephone and place an order for immediate supply of a small spare part which has just broken down putting the mill out of commission. There exists no engineering industry where such spare parts can be manufactured locally. Production is often lost for just the lack of an insignificant part of a machine which has to be flown out from the manufacturer abroad. Importing anything into the country requires various formalities and much time is lost going through such formalities before the urgently needed spare part arrives at the mill.

In order to avoid such undesirable mishaps in the factory, management is required to maintain a large stock of spares causing undesirable financial stringency and shortage of working capital. With the little experience they have had the executives are at a loss at times to determine which are the spare parts likely to be needed in the course of the daily operation of the mill. In order to have 100 per cent safety for replacement, it will be required to stock hundreds of items in the stores.

Attempts are now made by most managements of the public industrial enterprises to maintain well equipped workshops and foundries in their factories, so that urgently required spare parts can be manufactured locally. This approach to the problem seems to be promising, but here again overhead costs are increased. If auxiliary industries making precision tools and spare parts are developed in the country, the necessity for having an elaborate workshop in each of the State industries may not arise.

SOME ORGANIZATIONAL PROBLEMS

Being State owned industries, the ministry concerned is anxious to know how the affairs of the industries are managed by the Boards and

Corporations especially set up for the purpose of setting up and operating the industries. Although autonomy is usually given to the Boards and Corporations controlling the State industries, there are many issues in which the Ministry concerned wants to be consulted before any decision is made. Here, much confusion arises as to what extent autonomy should be given to public industrial enterprises. Until today there has not been any directive issued by the Ministry on this matter. It is left to the discretion of the person in charge of the Board or Corporation.

Within the Industrial Development Corporation there has been a change in the relationship between the Director General who is in charge of the Corporation and the top executives of the subsidiary industrial enterprises as mentioned earlier. Until recently tbe industries set up by IDC were managed by Subordinate Boards formed by the Board of Diectors of IDC. A free hand was given to the Sub-Boards as to the normal operation of the industries concerned. Prior approval was required only for sanctioning of annual budgets and when a sub-board wanted to expand its present capacity, or enter into a new line of business related to the existing one. For procurement of raw materials, employment of labour, and construction of buildings for the industry under its control, the sub-boards had full authority to sanction without restriction. However, it is now felt that wide authority given to these sub-boards may lead to wastage and dishonesty, and therefore the IDC has now abolished all sub-boards and instead Chief Executive Officers have been appointed to head the industries. Procurement of stores including raw materials, except for procurement of indigenous stores, are now handled by the "Central Procurement Committee" of which the Director General is the Chairman, and it is directly under his control. It is hoped that much economy can be effected by centralizing such purchases. It is rather premature to comment on this new arrangement as it was introduced very recently.

The IDC is now trying to bring about uniformity between its industires in the scales of pay and wage levels. Being public industrial enterprises, much freedom cannot be exercised in fixing pay and wages, as they keep in line with civil service scales.

There is one more organizational problem of State industries yet to be solved. The Government provides funds for purchase of machinery, construction of factory and required working capital to a state owned industry. But it is still not clarified yet as to how these funds are to be treated. One school of thought suggests that these funds are loans to State industries and therefore they should be paid back with interest. Another point of view is that Government being the owner of the industries should consider such funds as its own investment and hold shares in the industry as stockholder. All profits or loss should be considered to be the Government's risks as part of doing business and it should therefore not entertain the attitude of a creditor. About a year ago the subject came in for some discussion and it was felt that State industries should be corporated like public limited companies and investment made by the Government in such organizations should be capitalized, and that then the Government may decide when and to what extent its shares in the enterprises should be sold to the public.

SOME FINANCIAL PROBLEMS

The Government is now trying to make the established industries at least break even if it is not possible to make profits. Sufficient working capital and limited sums for capital expenditure are provided by the Government without much restriction.

However, due to shortage o foreign exchange, public industries are now having difficulties in importing the required equipment, raw materials and stores from abroad. In the past two years the Government had stopped implementing new industrial projects. Much care is taken and thorough scrutiny is made by the Foreign Exchange Control Authorities before approval is granted to a request for imports by the State industries. At times,

State industrial enterprises have been compelled to purchase the required raw materials and stores on a barter basis from countries with which the Government of Burma has entered into bilateral trade agreements due to lack of foreign exchange. Because of this, public industrial concerns sometimes have to pay higher prices for lower quality materials and stores, thereby increasing their cost of production.

COMMERCIAL PROBLEMS

The major problem on the commercial side confronting most public industrial enterprises is pricing and the competition from the imported foreign goods. As an illustration, the situation of the Sugar Mills may be cited here. The State Sugar Mills have been required to buy sugarcane from the cultivators at the price of K 40 per ton which was the price fixed by the Ministry of Agriculture in the interests of the cultivators. The price of sugar was fixed by the Civil Supplies Management Board for the benefit of consumers. Sugar Mills were therefore been compelled to buy cane at a high price and accept the selling price which does not cover its operating expenses. In short, sugar mills have been operating at a loss for the benefit of cane-growers and the consuming public. But this situation cannot go on for ever and therefore starting from this year the Government has reduced the price of cane to K 30 per ton so that sugar mills will be able to operate on a profit. This situation brings out the point that public industrial enterprises do not enjoy as much freedom as private enterprises to take advantage of the market situation to maximize their profits.

There also seems to be a lack of coordination among the Government agencies. At times, Government agencies are importing the products that a State industry is producing. The Commerce Ministry sometimes issues licences for importing of goods that are also produced by public industrial enterprises. The market has at times been flooded with imported goods and the State industry concerned has found it hard to meet the competition from the imported products.

In order to improve this situation the present Government restricts the importing of those products which are produced by the public industrial enterprises and foreign exchange is not provided to any Government department or agency for import of a product produced by a state industry, unless the industry concerned furnishes a certificate to the effect that the product required is not available or cannot be produced at the time of requirement. Under the present arrangement of issuing import licences, Government issues import licences to Joint Venture Corporations only. These Corporations are partly public and partly private as their name implies. These Corporations are also advised by the Commerce Development Corporation (a government agency) not to import those articles and products produced by the public industrial enterprises.

CONCLUSION

The government at present has been taking all possible steps to improve the functioning of the public industries. More trainees have been sent abroad and training programmes within industries have been carried out to meet the shortage of technicians and executives. Labour Unions have been freed from political interference. Discipline in State industries has improved.

In order to save time for import of urgently needed spare parts IDC has now received a block grant of foreign exchange and immediate action can be taken to import emergency requirements of spare parts and stores.

One problem, however, is still left unsolved, and this is the disparity between the pay scales in Government industries and those in the private sector. The civil service pay scales are adhered to in the public industrial enterprises and they are inferior to the pay scales given in the private industries. The difference in the nature and conditions of work in factories from that of the civil administration is yet to be recognized by the State.

The investments made by the Government in the industrial sector though important to the future development of Burma, are not efficient to "industrialize" Burma in the usual sense of that term. Indeed, to do so would require far more resources than can be reasonably managed by the Government. It is interesting to note that employment in the private industrial sector is more than ten times that of state industrial enterprises. Thus, the growth of industry in Burma depends far more on what happens in the private sector. The public industrial enterprises now established can employ only a small fraction of the manpower in Burma and will yield only a small part of the national product. Thus, the industrial programme so far implemented is large only in relation to the size of the industrial sector of the past; it is not large in relation to the total economy.

New India Press, New Delhi.

SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

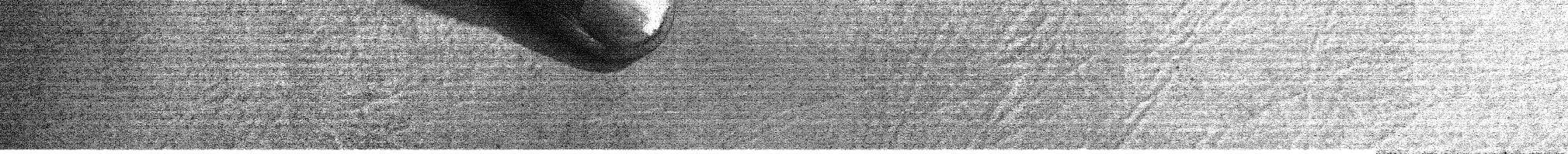
SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

SOME PROBLEMS OF ORGANIZATION AND MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES
A CASE-STUDY ON CEYLON

BY
THE ECAFE SECRETARIAT

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Paper No. 23



CONTENTS

	Page
Historical background	2
Objectives of industrial enterprises	4
Problems of management	4
Availability of resources	4
Relationship with the Government	6
The board of directors	9
Labour	10
Management	11
Appendix : State Industrial Corporations Act, No. 49 of 1957 ..	12

SOME PROBLEMS OF ORGANIZATION AND MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

A Case-Study on Ceylon

By
THE ECAFE SECRETARIAT

HISTORICAL BACKGROUND

The desire for industrialization in Ceylon is really a desire for industrial diversification and for progress beyond its traditional association with the processing of its three principal export crops, namely, tea, rubber and coconuts. There has been a gradual growth of a few consumer goods industries, but, owing to their specialized nature, they were unable to build up a broad industrial base. The wish to evolve a basis of this kind has guided the Government's industrial policy for some time past, and accordingly the Government has ventured into industrial fields on its own or in co-operation with private enterprise.

The Government's initiation of industries on its own account goes back to the time of the Donoughmore Constitution, that is, the 1943's. During the Second World War, the Government set up about a dozen small factories to supply articles mostly imported, such as plywood, paper, drugs, glassware, ceramic ware, acetic acid, wood products and re-rolled steel. Most of these were technically and economically unsound emergency affairs, showed losses with the ren-entry of competing foreign goods after the war, and were all closed down, except for the plywood factory and carpentry workshop.

The Government reviewed its industrial policy in 1945 and its findings were published in a paper entitled *Report on Industrial Development and Policy* (Sessional Paper XV—September, 1946). This report attempted to distinguish between basic and non-basic industries. The first were to be owned directly by the Government; the latter were to be left to private enterprise, with the State assisting them with technical information, advice and protection.

The report of the 1951 International Bank Mission criticised the Government's policy of entering all fields, and advocated the participation of private enterprise in government industrial schemes. It summed up "We cannot escape the conclusion that the Ministry of Industries, intent on building big factories of its own, has had its attention diverted from more fundamental areas of public service such as training technologists and skilled workers, affording technical and other aid to existing industries, and encouraging enlistment of private capital and energies towards development of a sounder pattern of diversified small industries which the country needs."*

* *The Economic Development of Ceylon.* Report of a Mission organized by the International Bank for Reconstruction and Development at the request of the Government of Ceylon. The Johns Hopkins Press, p. 514.

It was in pursuit of these recommendations that, in 1955, the policy of joint government and private participation in industry was adopted, through the passing of the "Government-Sponsored Corporations Act" (No. 19 of 1955). The object of the Act is :

> "to enable the establishment of corporations with capital provided by the Government for taking over and carrying out the purpose of manufactories maintained wholly or partly constructed by the Government, to regulate the powers and duties of such corporations, to provide for the sale to the public of the shares of the Government in the capital of such corporations and for the conversion of such corporations into incorporated public companies with limited liability when the Government ceases to hold more than twenty per centum of the capital of such corporations, and to make provision for purposes consequential to the aforesaid matters."

This Act was in pursuance of the Government's policy to be a sponsoring agency to make up for the lack of venturesomeness to invest in industrial fields on the part of private capital in Ceylon. Once the enterprises were started successfully, it was the desire of the Government to transfer their control to private capital.

After the 1956 elections, the new Government revised the policy of the previous Government in favour of state industrial corporations. The Government Sponsored Corporations Act of 1955 was replaced by the State Industrial Corporations Act, No. 49 of 1957, which was described in the legislation as "An Act to enable the establishment of corporations with capital provided by the Government for setting up and carrying on industrial undertakings previously carried on by corporations established under the Government Sponsored Corporations Act, No. 19 of 1955; to regulate the powers and duties of the corporations established under this Act; and to make provision for purposes consequential to the aforesaid matters".

This State Industrial Corporations Act governs the organization, administration and management of the public industrial enterprises in Ceylon today. It is no longer the policy to turn them over to private enterprise, although, as we shall see later, private participation is sought in their management. Since the adoption of the Act, previously existing enterprises have been reorganized into state industrial corporations, and new ones established on similar lines. At the time of writing, the following public undertakings had been organized as state industrial corporations :

Name of Corporation	*Principal lines of of production*	*Initial capital (1,000 Rs)**	*Date of incorporation under the SIC Act of 1957*
Kantalai Sugar Corp.	sugar	21,500	3 Dec. 1957
National Salt Corp.	salt and by-products	14,000	3 Dec. 1957
Ceylon Mineral Sands Corp.	ilmenite	8,000	3 Dec. 1957
National Textile Corp.	cotton goods	41,100	10 Jan. 1958
Eastern Paper Mills Corp.	paper	22,000	1 July 1958
Ceylon Carpentry Corp.	wood furniture	1,000	23 July 1958
Ceylon Oils and Fats Corp.	copra & coconut oil	19,750	1 Aug. 1958
Ceylon Ceramics Corp.	pottery & chinaware	3,000	1 Aug. 1958
D.I. Leather Products Corp.	footwear and leather products	1,700	1 Jan. 1959
Gintota Plywoods Corp.	plywood tea chests	2,800	1 Jan. 1959
Paranthan Chemicals Corp.	caustic soda, DDT & other chemicals	15,682	1 Jan. 1959
Ceylon Cement Corp.	cement	26,812	2 Jan. 1959

* Rs 1=US$0.21.

This list, however, excludes a carpentry workshop, a tile factory and a rice mill set up in the Gal Oya valley in the eastern part of Ceylon by the Gal Oya Development Board, which is a statutory authority created for the purpose of land clearance, settlement and area development. The Board is also in the process of establishing a large sugar factory to process the cane grown in the area.

OBJECTIVES OF INDUSTRIAL ENTERPRISES

The prime objective of Ceylon's industrial policy is the desire for industrial diversification as a means of improving living standards. Initiative on the part of the Government has been necessary, because private enterprise —both Ceylonese and foreign—was so closely associated with the cultivation and processing of plantation crops that hardly any capital was forthcoming to take risks in non-traditional fields of investment.

In deciding on what industries to start and own, the Government has been trying to make a distinction between "basic" and "non-basic" industries, somewhat similar to the distinction made in India. No clear criteria have been laid down as to what constitute "basic" industries; only industries have been enumerated. This was done by a Committee in 1945 and is also the present position as announced by the Minister of Industries in his statement on industrial policy in 1957. At various stages, "basic" industries have included cement, cotton spinning, drugs and pharmaceuticals and the like, in addition to power, iron and steel and heavy chemicals.

The definition of basic as distinct from non-basic, as well as the philosophy regarding public ownership often follows changes in political beliefs rather than strict economic considerations. Two stages of departmental running, and separate corporations with the idea of ultimately handing them over to private enterprise were passed through; with the change in the Government in 1956, the idea of state corporation remained, but the intention of transfer to private enterprise was given up. The Government was clearly wedded to the idea of a socialist economy by gradually extending the scope of the public sector through the establishment of new industries and the nationalization of several of the existing ventures, such as port cargo handling bus transportation, etc.

This history of objectives clearly shows that, while material production and economic profit are considered relevant and desirable, they have not necessarily provided the *raison d'etre* of public undertakings. The real intentions have been more political and social in character, and it is these that have to be borne in mind when considering the special management problems encountered in the public undertakings of Ceylon.

PROBLEMS OF MANAGEMENT : FACTORS EXTERNAL TO THE ENTERPRISE

AVAILABILITY OF RESOURCES

Capital : The public enterprises in Ceylon, unlike those in many other countries, have not encountered serious difficulties in securing funds, including foreign exchange, from the Government. The high ratio of national income obtained as revenue by the Government of Ceylon, and its large contribution to national capital formation have been the major factors in providing public industrial enterprises with ample funds, while capital is not easily available for private industrial ventures. A considerable proportion of private savings, not channelled to the agricultural sector, also flows into the Government's coffers. The relatively favourable situation enjoyed by Ceylon's products in world markets has provided sufficient foreign exchange to meet the country's present needs for consumption and investment.

Raw materials : Too much attention appears to have been paid in Ceylon to the question of basing industries on the availability of local raw materials; it has often prevented thought being directed to industries that

could have been started on the basis of imported raw materials. As a matter of fact, many old and newly developing industrial communities in the world have based their industries on imported raw materials. In this connexion, the Report of the Bank Mission was quite explicit :

"Nothing in potential economic development can more easily lead to false conclusions than the question of available raw materials.

"In the first place, local occurrence of a raw material is not a necessary condition for the establishment of an industry. It helps, but it is only one factor among many. Where other conditions are highly favourable, a sound industry frequently can be built upon imported materials. For instance, it is improbable that Ceylon can ever be a good wheat-growing area; but local milling of foreign wheat would save on exchange, shipping and unloading costs, would minimize storage problems under tropical conditions, and would make valuable by-product animal feeds available locally instead of somewhere else."*

However, most of Ceylon's public undertakings have been initiated on the basis of availability of local raw materials. The cement factory is based on the limestone deposits in the Jaffna peninsula in the north; the Kantalai and Gal Oya sugar factories and the textile mill, will of course, depend on domestic sugarcane and cotton cultivation; the Mineral Sands Corporation will refine and process the mineral deposits at Pulmoddai for export; the paper mill is based on the exploitation of local *illuk* grasses; the same is true of the salt, ceramics, oils and fats, plywood, leather and chemical factories. Based, as they are, on the local availability of raw materials, the industries generally have not experienced of difficulties due to shortages of raw material supplies. A notable exception has been the Oils and Fats Mill, which has, sometimes, experienced shortages of copra during poor crop seasons.

Manpower : Ceylon has a surplus of unskilled labour, and an excess supply for clerical jobs, although there is a critical shortage of skilled labour. There is also a shortage of top level technicians and skilled managers of industry.

Various attempts have been made to overcome the shortage of skilled labour, but the educational system has not produced craftsmen as distinct from literate clerical workers. The lack of an already existing industrial environment is a responsible factor. It is not true that the Ceylonese worker is slow at acquiring skills, and, as noted in the Bank Mission report : "Once satisfactorily placed, he prefers to remain in his job a long time, and so becomes proficient. Security of tenure is more important to him than personal advancement. This has a tendency to stifle the ambition to learn techniques beyond the requirements of his immediate task, and thus interferes with the upgrading process upon which industry normally counts to produce its foremen and supervisors."**

Attempts have been made to overcome the critical shortage of skilled technicians and managers by recruiting foreign personnel, and by sending Ceylonese nationals abroad to acquire techniques.

In addition, administrative and technical personnel from government departments have been deputed to the Boards of these industries. This is not altogether surprising, as government service in Ceylon has attracted the best talents available in the country. Even people with fairly comfortable incomes from plantations and other property have preferred to join the civil service for reasons of prestige.

Power and transport : Ceylon has no large power-consuming industries, so that lack of power is not a serious bottleneck in the operation of industrial undertakings. The ten-year plan is, however, based on rapid power development, which will raise the country's present capacity of about

* *Op. cit*, pp. 524-525.
** *Op. cit.*, p. 524.

82 MW to 382 MW by 1968. The problem faced by industrial undertakings has, however, not been so much the availability of power as the price charged for it. Lack of realistic accounting has led to unsound decisions. For example, the hydroelectrical plant in the Gal Oya valley is installed to supply a maximum of 10 MW, but the present demand is in the range of about 1 MW only; the rest of its capacity remains unutilized. The marginal cost of supplying power to the rice mill would be indeed small. However, the electricity department in the valley would charge 5 to 6 cents per kWh to the rice mill, which would therefore find it more economical to meet its power needs from a steam boiler. Thus there is wastage in terms of the capital cost of the boiler plus the cost of obtaining steam, while power from the electrical installation remains unutilized.

A similar situation obtains in regard to transport. The Government is the sole owner of the country's railway system. The extremely favourable rates given to the government-owned cement factory have vitiated the economies of local cement production. They have led to the overlooking of water transport between Kankesanturai, the port at which Ceylon cement is produced, and Colombo or Galle, the ports to which cement is at present brought by rail for distribution and consumption. Similarly, oil is also carried by rail from Colombo to the factory at Kankesanturai. The Government levies duty on oil, which raises the cost of cement produced at the factory, and this cost is used in reaching decisions on the expansion of local production. In all such instances, it would be desirable if the true aggregate costs to the country were worked out, eliminating the internal transfers between the different accounting entities.

RELATIONSHIP WITH THE GOVERNMENT

Power of the Minister : Under the State Industrial Corporations Act, the general control of the affairs of public undertakings has been vested in Boards of Directors, who are appointed by the Minister of Industries. The Minister is also responsible for appointing the Chairman and Managing Director from the members of the Board of Directors. The Minister accepts the resignation of Directors, or removes them from office, at his discretion. Only the Managing Director is given definite terms and conditions at the time of his appointment.

The Act also empowers the Minister to give general directions from time to time, and also special directions "as to the exercise of the powers and the discharge of the duties of such Board." The implementation of the Minister's general and special directions by the Board is mandatory. The Minister is also empowered to have inquiries instituted at his instance. Finally, the Board of Directors has been enjoined to submit to the Minister the audit report, profit and loss account and balance sheet, and a report on the work of the corporation for the period covered by the profit and loss account and the balance sheet. These powers are designed to ensure the accountability of the enterprises to Parliament. Broadly speaking, the Minister's powers, as in the United Kingdom, fall into three groups : power to appoint and remove Board members, power over specific matters pertaining to an enterprise, and power of issuing "general directives" to the Boards on matters affecting the national interest.

The power to issue directives has been subject to criticism. In intention, these powers ought to concern major matters of policy, and not particular matters of management or operation. However, the Ministers have sometimes used these powers on matters of detail. Following a strike of electrical workers, the Government raised wages in all enterprises, regardless whether they could economically afford it or not. Similarly, workers have been treated to rent allowances, statutory holidays, etc. available in the administrative services. These benefits, in the present state of Ceylon's economy, might be quite out of proportion to what may be deemed as economically feasible, either for industry or for the administrative services. There is an instance of a chairman of a corporation even resigning in protest against

the enforcement of statutory holidays for the employees of his corporation by a Ministerial directive. The test of earnings seems to have been overlooked in such concessions, given primarily on non-economic grounds.

Parliamentary control : It is true that the enterprises ought to be subject to parliamentary control in the last analysis. In a democratic society, "It is natural that parliamentary questions will be put down on the public enterprises. Any suggestion to the contrary will seem most undemocratic. These questions will have to do with individual decisions—particular purchases, sales, recruitments, product designs,—and may involve genuine mistakes. Nothing is more reliable in a democracy than the instinct of the politician for the errors of others."*

Yet, if this is the case, responsibility will be shelved, and the process of reaching quick business decisions will be replaced by the present method of reaching civil service decisions with all its delays. It is this realization which has caused the United Kingdom Parliament to prohibit considerations of all questions about individual decisions of public corporations.

The cure does not lie in granting absolute independence to the enterprises. Rational rules on labour relations, procurement procedures, financial procedures, etc. could be laid down in advance without hampering management. And management should be asked to operate the plant most efficiently in an economic sense.

"Here then is the answer. Subject only to guiding rules the public enterprise must be free of question on its decisions. Ministers and government must protect it in this freedom. At the same time, it must be held strictly to account for results. Autonomy is for a purpose—to enable it to produce results.

"Since the principal test of performance is earnings, the public enterprise must be in a position to resist the undue demands of its employees or customers. This is another reason why individual action should not be subject to ministerial or parliamentary review. If they are, workers and customers will soon learn to go to the ultimate source of power which is the minister or the member of Parliament. Good politicians are always sensitive to such demands. It is their business to be. But the price of intervention in response to individual pressures will again be overall failure of the enterprise.

"So again we see the need for autonomy of decision, including autonomy on the important questions of wage regulation and price making. This does not mean that the public enterprise should be tough and cold-blooded in its dealings with labour or customers. As noted, requirements for equitable treatment of labour should be specified in the charter. And the public enterprise cannot forget that it was created to serve its customers. But it must have the independence which enables it to withstand political pressures on behalf of special favours for its workers and customers."**

Relationship with civil service : While corporations are directly responsible to the Minister, and through the Minister to the Parliament, the Minister, in practice, has relied for advice on the Ministry, and there has, therefore, been much less independence from the civil service as at first sight would appear from a reading of the State Industrial Corporations Act. In point of fact, the autonomy of the enterprise is not automatically assumed by an enactment establishing a corporate structure. In practice, the corporation although customers on the Satute book, may be made completely dependent on a ministry, and to follow civil service procedures which may hamper adoption of business-like practices. Ceylon has realized the necessity to reduce this dependence.

---

* John Kenneth Galbraith, *Industrial Organization and Economic Development*, Colombo, April 15, 1959, p. 12.

** Galbraith, *op. cit.*, pp. 12-14.

What is less clearly understood is decentralization. "The state having created the organization must, in effect, be willing to hold it at arm's length. It must remove it from any close connection with the civil service. It must accord it freedom from civil service clearances, procedures, and working rules. It must give it freedom of decision—this is the most difficult point of all—including freedom even to the point of making mistakes. Some mistakes are inherent in the tempo of business decisions. They can be avoided only by slowing down the speed of decision and having a full drill of civil service clearances. But this is the one thing that cannot be tolerated. It means each decision is right at the price of overall failure in the result. While the individual trees are being saved the forest is destroyed."*

The crux of the problem of dependence on the civil service lies in the system of deputations, for which rather detailed provisions are made in the State Industrial Corporations Act.

The drawback of this system of deputations is that the traditions of the civil service die hard. Even when an officer of the Government has been nominated as a managing director or a board chairman of a state industrial corporation, his independence of judgment is often limited by the habit of seeking concurrence of his senior or superior colleagues in the service. His qualifications also tend to be unsuitable to the running of a business enterprise. For instance, in personnel policies, he is likely to weigh considerations of age and seniority above proficiency. Where his secondment is of a temporary nature, his dependence on senior colleagues and civil service procedures is likely to be absolute.

In this connexion, it is appropriate to bear in mind the major difference between running a civil department of government and a public business enterprise. The difference lies in the nature of business decisions.

"The ordinary civil department of government has a relatively low tempo of decision-making and there is a high premium on the rightness of individual decision. The wrong decision may set a precedent and the liberty and well-being of the citizen may be involved. Mistakes will certainly invite political criticism for it is the function of political criticism to attack error. Accordingly there is always an elaborate procedure for review and clearance up through the hierarchy of government. The tempo of decision is adjusted to such procedures. And these safeguards, though often deplored as red tape, are on the whole a useful protection for the citizen.

"In the productive enterprise things are very different. As a Ceylon Commission observed a few years ago (The Commission on Government Commercial Undertakings, November 1953) the productive enterprise 'demands prompt decision and quick action and it cannot wait until the circumlucution of reference from Activity to Department, Department to Ministry, Ministry to Treasury and sometimes Treasury to Minister has been inexorably gone through'. The price of such delay will be idle men and plant, high cost, lost opportunity.

"While decisions in the productive enterprise must be made far more rapidly than in ordinary government departments they are of a sort that can be made more rapidly. For—always with exceptions—the ordinary individual business decision is not usually of critical importance. It rarely sets a precedent. The liberty and well-being of citizens is rarely affected on a large scale. Mistakes can usually be retrieved fairly easily. Wrong decisions can often be reversed when it becomes clear that they are wrong. If a price is too high it can be lowered. If too low it can be raised. In the business enterprise promptness of decision is far more important than precision. It is not a perfect score but a high average which marks the successful business manager. The successful manager is not a genius. But *invariably* he has a high capacity to make up his mind."**

---

* Galbraith, *op. cit.*, p. 11,

** Galbraith, *op. cit.*, pp. 12-14.

Financial control : Under the State Industrial Corporations Act, the corporations start with capital as approved by Parliament. This capital is generally sufficient to meet the initial capital outlay and provide working capital.

The enterprises are generally enjoined to operate in such a way as to enable them to meet at least their current liabilities. In intention, therefore, the enterprises are required to avoid incurring continuous losses, although in practice they have done so. They are, of course, not prevented from earning surpluses. These surpluses are subject to income tax. The balance of the profits could either be transferred to reserves, with the approval of the Minister, or credited to the consolidated fund of Ceylon, with the approval of the Minister of Finance.

The capital of the corporation can only be increased by money voted by the Parliament. In this sense, the approval of investment decisions rests with Parliament.

Financial control over the enterprises is secured by the requirements of audit, submission of audited financial accounts to the Minister, and, through the Minister, to Parliament and the need to go to the Parliament for funds for capital outlay.

The auditor, under the Act, is appointed by the Minister, on the advice of the Auditor-General, who has the power to direct the manner in which accounts shall be audited, to conduct a supplementary or test audit, and to comment upon or supplement, the auditor's report. The Board of Directors is required to submit the auditor's report, together with the Auditor-General's comments, to the Minister.

This practice is similar to that in India, but unlike in India, there has not been much criticism in public enterprise management circles in Ceylon of the exercise of his powers by the Auditor-General. In other respects, finance has been rather liberal, and none of the corporations seem to have any complaint on that score.

What is really needed, however, is what may be termed as "efficiency audit", incomparably wider in scope than the customary audit of accounts. Its "object would be to ascertain whether a public corporation is conducting its work well or feebly, to call attention to merits and shortcomings, to make suggestions for improvement, and to act as the eyes and ears of the general public".* An audit of this kind would concern itself with the efficiency of an undertaking operating within the framework of policy already laid down in the statutes, regulations and directions. It would inquire "into such matters as the character, quantity and quality of goods or services provided; price policy; efficiency of administration; personnel questions, including pay, recruitment, and methods of promotion; relations between the board and the consumer; capital expenditue, and the methods of financing it, and so forth."** It should not, normally, raise questions involving fundamental policy decisions, such as the wage policy of the Government or subsidization of certain essential services. *Ad hoc* committees could be appointed for investigations of a more fundamental character.

THE BOARD OF DIRECTORS

The importance of the board of directors should not be minimized, because it is the source from which "flow all the decisions on policy and administration which together make up good or bad management."***

As for size, the boards in Ceylon are relatively small, with four to six members. The members are chosen from the civil service and from a wider group of experienced businessmen. The major drawback, in this respect,

---

* William A. Robson, *Problems of Nationalized Industry* (George Allen & Unwin, 1952), p. 321.

** Robson, *Op. cit.*, p. 323.

*** Robson, *Op. cit.*, p. 91.

in Ceylon, however, is political factors that have sometimes influenced the nomination of the members. The boards have been made to resign or have been dismissed, not only on a change of Government, but even on a change of individual ministers. This is a departure from the cherished tradition of avoiding political criteria in appointments and promotions in the civil service, judiciary and public appointments administration in Ceylon.

In operation, the boards have sometimes concerned themselves with petty details rather than questions of broad policy. This had led to a conflict between the general manager and technical personnel on the staff and the non-professional board members.

In one case, the manager of an enterprise clearly expressed a preference to operate under departmental running rather than being subject to be an isolated case, since in most corporations the Chairman of the Board combines also the functions of the manager or managing director.

In this sense, some of the boards are assuming the character more of a functional board than a policy board. This is particularly true of the Paranthan Chemicals Corporation, the Ceylon Cement Corporation and the National Salt Corporation. They have as chairmen or managing directors, technologists, functionally in charge of production. Other boards are primarily policy boards, the members representing the experience of private business or public administration.

LABOUR

A major, perhaps the most important, problem confronted by public enterprises in Ceylon, is in the field of labour relations. It presents itself in its most acute in the sphere of public undertakings. Labour, particularly industrial labour, as is to be expected, is the main concern of many political parties. A number of political groups in opposition at times exploit economic grievances to cause embarrassment to the Government. While productivity is declined or remained at a standstill, real wage increases were given to labour, and their rewards seriously affected the economic viability, of the enterprises directly concerned and the economy as a whole. The wage increases have stimulated general consumption, and no measures have been taken to increase savings and investments.

In Ceylon's economy, the objective of increasing national productivity has, in practice, often been decreased from on account of pressures from various groups to increase their own share of the national product at the expense of the community or some other group. For example, the passengers of nationalized bus and rail transport services have been successful in securing cheap fares, and workers in these industries higher wages, at the expense of the general exchequer. In the last year many ships stopped calling at Colombo port; freight rates to Colombo have been raised twenty-five per cent. Not only do the strikes directly affect the industries concerned; they are usually followed by sympathy strikes in other associated industries. The burden ultimately falls on the community at large. It results in a lower national product, a problem with which the individual pressure group is not concerned.

It only remains to point out a few instances of how the usual industrial criteria are over-ridden by socio-political factors. In 1957, real wage rates were raised following an increase in allowances granted to all government employees paid on a monthly basis. They were next granted statutory government holidays. Ceylon labour, in public undertakings enjoys, in addition to Sundays, all full moon days and some other religious holidays as public holidays. The workers are permitted to hold lengthy union meetings during working hours. Dismissal for inefficiency, refusal to work, or outright insubordination is practically impossible, as it would provoke a strike. In 1958, the daily wage rates in several types of work were replaced by monthly wages, which entitled the workers not only to security of tenure, but made them eligible for housing or rent allowances. Recently the Government had to grant a monthly wage basis even to dock labour. Each concession granted sets a precedent for a further concession. In the meanwhile, most

enterprises are operating at a financial loss, instead of providing surpluses required to finance further development.

MANAGEMENT

Ceylon, like the other less developed countries, has a shortage of competent manager. However, the problem of supply of managerial talent is far less important than the conditions under which management works.

It is often argued that lower salaries in public enterprises do not attract competent managerial talent. This is not so. First, with all the prerogatives included, the managers of public undertakings in Ceylon are not paid any less than in private enterprise. Secondly, the civil service, with relatively lower salaries, has been able to secure the best talent available in the country.

The real drawback is not the lack of qualified personnel but the frustrations of public industrial employment. Professor Galbraith has aptly summed up the situation as follows :

> "In most such (less developed) countries and certainly Ceylon is one, a proper search will turn up competent managers. Training will make more available. And, while management must be a well-paid profession, no country in modest circumstances should think it necessary to pay exceptionally high salaries. Good performance depends not on pay but on the instinct to workmanship. The best men in every profession including management are motivated by a sense of achievement rather than by money. The individual who places exclusive emphasis on his pay is at least partly disqualified for that reason. But the best man in the world can be defeated if he is not given the proper chance. And the tendency in public enterprises is not to choose the worng men—that sometimes happens but less often than supposed—but to select good men and then deny them the chance to make good."*

* Galbraith, *Op. cit.*, pp. 4-5.

APPENDIX

STATE INDUSTRIAL CORPORATIONS ACT NO. 49 OF 1957

An Act to enable the establishment of corporations with capital provided by the Government for setting up and carrying on industrial undertakings, or taking over and carrying on industrial undertakings previously carried on by corporations established under the Government Sponsored Corporations Act, No. 19 of 1955; to regulate the powers and duties of the corporations established under this Act; and to make provision for purposes consequential to the aforesaid matters :

DATE OF ASSENT : NOVEMBER 1, 1957

Be it enacted by the Queen's Most Excellent Majesty, by and with the advice and consent of the Senate and the House of Representatives of Ceylon in this present Parliament assembled, and by the authority of the same, as follows :

SHORT TITLE

1. This Act may be cited as the State Industrial Corporations Act, No. 49 of 1957.

INCORPORATION ORDER FOR ESTABLISHMENT OF A STATE INDUSTRIAL CORPORATION

2. (1) Where the Government considers it necessary that a corporation should be established for the purpose of—

(*a*) setting up and carrying on any industrial undertaking; or

(*b*) taking over and carrying on any industrial undertaking previously carried on by any corporation which was established under the Government Sponsored Corporations Act, No. 19 of 1955, and was subsequently dissolved,

the Minister, with the approval of the Government, may by Order (hereinafter referred to as the Incorporation Order) published in the Gazette—

(*i*) specify the industrial undertaking (hereinafter referred to as the "Specified Industrial Undertaking") to which the Order relates;

(*ii*) declare that a corporation shall be established for the purpose of setting up and carrying on, or taking over and carrying on, as the case may be, the Specified Industrial Undertaking;

(*iii*) assign a corporate name to the corporation;

(*iv*) specify the initial capital of the corporation which shall not exceed such amount as shall have been approved by the House of Representatives;

(*v*) state the principal place of business of the corporation;

(*vi*) fix the number of members of the Board of Directors of the corporation, the number so fixed being not less than three and not more than seven;

(*vii*) appoint as the first members of such Board any persons who, under this Act, are qualified for being such members; and

(*viii*) appoint one of the members of such Board as the Chairman of such Board.

(2) Upon the publication of the Incorporation Order in the Gazette, a corporation (hereinafter referred to as the Corporation) consisting of the persons who are for the time being members thereof by virtue of section 9, with the corporate name specified in such Order, and with perpetual succession shall be deemed to have been established.

(3) The Corporation may sue and be sued in its corporate name.

OBJECTS OF THE CORPORATION

3. (1) The purposes constituting the Specified Industrial Undertaking according to the description of that Undertaking in the Incorporation Order shall be the objects of the Corporation.

(2) The Minister may, with the approval of the Government, alter the objects of the Corporation by mending, by Order published in the Gazette, the description of the Specified Industrial Undertaking contained in the Incorporation Order.

PRINCIPAL PLACE OF BUSINESS OF THE CORPORATION

4. (1) The principal place of business of the Corporation shall be that specified in the Incorporation Order.

POWERS OF THE CORPORATION

5. (1) The Corporation shall have the power to acquire and hold and to take on hire or lease any movable or immovable property and to give on hire or lease or to sell or otherwise dispose of any of its properties :

Provided that no immovable property of the Corporation shall be sold without the prior approval of the Minister.

(2) The Corporation shall have the power to do anything necessary for, or conducive or incidental to, the carrying out of its objects, including the power to borrow money for carrying out its objects and to secure the payment of any sum of money by the mortgage of any of its properties:

Provided that the Corporation shall not borrow or secure the payment of any sum of money exceeding such amount as may be determined from time to time by the Minister with the concurrence of the Minister of Finance.

LIABILITY OF THE CORPORATION LIMITED TO ITS CAPITAL

6. The liability of the Corporation shall be limited to the capital of the Corporation.

NOTES

SEAL OF THE CORPORATION

7. (1) The Corporation shall have a common seal which shall be in the custody of the Board of Directors.

(2) The seal of the Corporation may be altered in such manner as may be determined by the Board of Directors.

(3) The seal of the Corporation shall not be affixed to any instrument or document except in the presence of two members of the Board of Directors both of whom shall sign the instrument or document in token of their presence.

(4) The Board of Directors shall maintain a register of the instruments or documents to which the seal of the Corporation is affixed.

GENERAL CONTROL OF THE AFFAIRS, AND THE EXERCISE OF THE POWERS, OF THE CORPORATION

8. Subject to the other provisions of this Act,—

(*a*) the General control of the affairs of the Corporation shall be vested in a Board of Directors constituted as hereinafter provided, and

(*b*) such Board may exercise the powers of the Corporation for the purpose of carrying out the objects of the Corporation.

MEMBERS OF THE CORPORATION

9. The persons holding office for the time being as members of the Board of Directors shall be the members of the Corporation.

NUMBER OF DIRECTORS

10. The Board of Directors shall consist of such number of directors as is fixed by the Incorporation order.

DISQUALIFICATION FOR BEING A DIRECTOR

11. A Senator or a Member of Parliament shall not be qualified to be a director.

APPOINTMENT OF DIRECTORS

12. The Minister shall appoint the directors from among persons (including officers in the public service) who appear to the Minister to have had experience of and shown capacity in industrial, administrative, commercial, financial or legal matters, applied sciences, or the organization of workers.

APPOINTMENT OF CHAIRMAN OF THE BOARD OF DIRECTORS

13. The Minister shall appoint one of the directors as the Chairman of the Board of Directors.

MANAGING DIRECTOR OF THE CORPORATION

14. (1) The Minister may at any time appoint one of the directors as the Managing Director of the Corporation. The Chairman of the Board of Directors shall be eligible for appointment as the Managing Director.

(2) The Managing Director of the Corporation shall be eligible for appointment as the Chairman of the Board of Directors.

(3) The terms and conditions of the appointment of the Managing Director of the Corporation shall be determined by the Minister with the concurrence of the Minister of Finance.

(4) The Managing Director's term of office, his remuneration, his resignation or removal from or vacation of office, and his eligibility for re-appointment on vacation of office shall be in accordance with the terms and conditions of his appointment.

TERM OF OFFICE OF DIRECTORS OTHER THAN MANAGING DIRECTOR

15. Every director, other than the Managing Director, shall hold office for a period of three years, unless he vacates or is removed from office earlier.

APPOINTMENT OF ACTING DIRECTORS

16. If any director is temporarily unable to discharge the duties of his office on account of ill-health, absence from Ceylon, or any other cause, the Minister may appoint some other person to act as a director in his place.

RESIGNATION OF DIRECTORS OTHER THAN MANAGING DIRECTOR

17. A director, other than the Managing Director, may resign office by letter addressed to the Minister.

REMOVAL OF DIRECTORS, OTHER THAN MANAGING DIRECTOR FROM OFFICE

18. The Minister may, if he thinks it expedient to do so, remove a director, other than the Managing Director, from office.

ELIGIBILITY OF DIRECTORS, OTHER THAN MANAGING DIRECTOR FOR RE-APPOINTMENT

19. A director, other than the Managing Director, who vacates office by effluxion of time shall be eligible for re-appointment.

REMUNERATION OF DIRECTORS, OTHER THAN THE MANAGING DIRECTOR

20. The directors, other than the Managing Director, may be remunerated out of the funds of the Corporation in such manner and at such rates as the Minister, with the concurrence of the Minister of Finance, may determine.

THE FIRST DIRECTORS

21. The first directors shall be the persons appointed as such directors by the Incorporation Order, and their term of office shall commence on the date of publication of such Order in the Gazette.

THE FIRST CHAIRMAN OF THE BOARD OF DIRECTORS

22. The first Chairman of the Board of Directors shall be the person appointed as such Chairman by the Incorporation Order.

CAPITAL OF THE CORPORATION

23. (1) The initial capital of the Corporation shall be that specified in the Incorporation Order.

NOTES

(2) The capital of the Corporation may be increased from time to time by such amount as may be authorized by resolution of the House of Representatives to be paid to the Corporation for the purpose of increasing such capital.

QUORUM FOR MEETINGS OF BOARD OF DIRECTORS

24. The quorum for any meeting of the Board of Directors shall, until it is prescribed by regulation, be three members.

TRANSFER OF CROWN PROPERTY AND CERTAIN CONTRACTS AND LIABILITIES TO THE CORPORATION

25. (1) The Minister may, subject to the provisions of sub-section (2) and sub-section (3), by Order published in the Gazette transfer to the Corporation—

(*a*) any movable or immovable property of the Crown required for the purposes of the Corporation, and

(*b*) any contracts and liabilities of the Crown connected with such purposes.

(2) No movable property, and no contract or liability, of the Crown shall be transferred to the Corporation under sub-section (1) without the concurrence of the Minister of Finance.

(3) No immovable property of the Crown shall be transferred to the Corporation under sub-section (1) without the concurrence of the Minister of Finance and the Minister to whom the subject of Crown lands is for the time being assigned.

(4) Upon the publication of an order under sub-section (1) in the Gazette—

(*a*) the properties specified in that Order shall vest in and be the properties of the Corporation,

(*b*) the contracts specified in that Order shall be deemed to be the contracts of the Corporation and all subsisting rights and obligations of the Crown under such contracts shall be deemed to be the rights and obligations of the Corporation, and

(*c*) the liabilities specified in that Order shall be deemed to be the liabilities of the Corporation.

APPOINTMENT OF PUBLIC OFFICERS TO THE STAFF OF THE CORPORATION

26. (1) At the request of the Board of Directors, any officer in the public service may, with the consent of that officer and of the Secretary to the Treasury, be temporarily appointed to the staff of the Corporation for such period as may be determined by such Board with like consent or be permanently appointed to such staff.

(2) The provisions of sub-section (1) shall apply to the appointment as the Managing Director of the Corporation of any such member of the Board of Directors as is an officer in the public service.

(3) Where an officer in the public service is temporarily appointed to the staff of the Corporation—

(*a*) he shall be subject to the same disciplinary control as any other member of such staff;

(*b*) if, at the time of his temporary appointment to the staff of the Corporation, his substantive post in the public service was a

post declared to be pensionable under the Minutes on Pensions,—

(*i*) he shall, while in the employ of the Corporation, be deemed to have been seconded to an office to which pension rights are not attached and accordingly section 24 of those Minutes shall apply to him and

(*ii*) in respect of him the Board of Directors shall pay out of the funds of the Corporation to the Deputy Secretary to the Treasury to be credited to the Consolidated Fund of Ceylon for every complete month during which he is in the employ of the Corporation such sum not exceeding twenty-five per centum of the salary payable to him in his substantive post in the public service as may be determined by the Minister of Finance; and

(*c*) if, at the time of his permanent appointment to the staff of the Corporation, he was a contributor to the Public Provident Fund established under the Public Service Provident Fund Ordinance, No. 18 of 1942, he shall, for the purposes of that Ordinance, be deemed to have left the service of the Government upon the determination of contract with the consent of the Government otherwise than by dismissal.

(4) Where the Corporation employs any person who has entered into a contract with the Government by which he has agreed to serve the Government for a specified period, any period of service to the Corporation by that person shall be regarded as service to the Government for the purpose of discharging the obligations of such contract.

DISPOSITION OF PROFITS OF THE CORPORATION

27. Out of the profits of the Corporation in each year the Board of Directors shall, with the approval of the Minister, pay to general or specific reserves of the Corporation such sums of money as may be determined by such Board with such approval, and the balance, if any, of such profits shall, with the approval of the Minister of Finance, be paid to the Deputy Secretary to the Treasury to be credited to the Consolidated Fund of Ceylon.

ACCOUNTS OF THE CORPORATION

28. (1) The financial year of the Corporation shall end on the thirty-first day of March.

(2) The Board of Directors shall cause the accounts of the Corporation to be kept in the same manner and form as the accounts of a company under the Companies Ordinance, No. 51 of 1938.

(3) The books of accounts of the Corporation shall be kept at the principal place of business of the Corporation.

AUDIT

29. (1) The accounts of the Corporation shall be audited annually by an auditor (hereinafter referred to as the auditor) appointed by the Minister on the advice of the Auditor-General. The auditor so appointed shall be registered under the Companies Ordinance, No. 51 of 1938. The auditor shall receive such remuneration from the funds of the Corporation as the Minister may determine with the concurrence of the Minister of Finance.

(2) The Auditor-General shall have power—

(*a*) to direct the manner in which the Corporation's accounts shall be audited by the auditor and to give the auditor instructions in regard to any matter relating to the performance of his functions as the auditor, and

NOTES

(*b*) to conduct a supplementary or test audit of the Corporation's accounts by such person or persons as the Auditor-General may authorize in that behalf and for the purpose of such audit, to require information or additional information to be furnished to any person or persons so authorized, on such matters, by such person or persons, and in such form, as the Auditor-General may, by general or special order, direct.

(3) The auditor shall examine the accounts of the Corporation and furnish a report stating—

(*i*) whether he has or has not obtained all the information and explanations required by him; and

(*ii*) whether the balance sheet and accounts referred to in the report are properly drawn up so as to exhibit a true and fair view of the affairs of the Corporation.

(4) The auditor shall submit a copy of his audit report to the Auditor-General who shall have the right to comment upon, or supplement, the auditor's report in such manner as the Auditor-General may think fit.

(5) The Auditor-General shall transmit the audit report together with his comments upon, or his supplement to, such report to the Board of Directors.

DOCUMENTS TO BE SENT TO THE MINISTER AND LAID BEFORE HOUSE OF REPRESENTATIVES

30. (1) The Board of Directors shall, on receipt of the auditor's report in each year, transmit to the Minister—

(*a*) a copy of such report together with the Auditor-General's comments (if any) upon, and his supplement (if any) to, such report;

(*b*) a copy of the profit and loss account;

(*c*) a copy of the balance sheet, and

(*d*) a report by such Board on the work of the Corporation for the period for which the profit and loss account and the balance sheet have been made up.

(2) The Minister shall cause copies of all the documents specified in sub-section (1) to be laid before the House of Representatives for approval.

DIRECTIONS BY, AND INQUIRIES AT THE INSTANCE OF, THE MINISTER

31. (1) The Minister may, from time to time, give the Board of Directors general directions, and, after consultation with such Board, give such Board special directions, as to the exercise of the powers and the discharge of the duties of such Board, and such directions shall be carried out by such Board.

(2) The Minister may, when he considers it necessary to do so, direct any person to hold an inquiry into the work and financial position of the Corporation.

(3) When such inquiry as is referred to in sub-section (2) is held, any director or any member of the staff of the Corporation shall, upon being requested to do so by the person holding the inquiry, furnish such information within his knowledge with regard to the affairs of the Corporation and produce such books of accounts or documents in his custody as that person may require.

PAYMENT OF TAX ON INCOME OR PROFITS OF THE CORPORATION

32. The Corporation shall be liable to pay tax on its income or profits.

COMPULSORY ACQUISITION OF ANY LAND OR AN INTEREST IN ANY LAND FOR THE CORPORATION

33. The Minister may by Order published in the Gazette approve of the proposed acquisition of any land, or any interest in any land, other than Crown land, for any purpose of the Corporation, and where such an order is so published, the land or the interest in any land specified in the Order shall be deemed to be required for a public purpose, and may be acquired under the Land Acquisition Act, No. 9 of 1950, and, when so acquired, shall be transferred to the Corporation under the Crown Land Ordinance, No. 8 of 1947.

APPLICATION OF COMPANY LAW TO THE CORPORATION

34. (1) The Minister may by regulation made under this Act provide for the application to the Corporation, with or without any modification, of any provision of the Companies Ordinance No. 51 of 1938.

(2) The provisions of the Companies Ordinance No. 51 of 1938, other than the provisions of that Ordinance which are made applicable to the Corporation by regulations made under this Act, shall not apply to the Corporation.

STAFF

35. The Board of Directors shall, subject to the provisions of sections 14 and 26, have power to appoint such officers and servants as may be necessary for the purposes of the Corporation and to exercise disciplinary control over and dismiss any officer or servant of the Corporation :

Provided that the Board of Directors shall not, without the approval of the Minister, dismiss any such officer or servant of the Corporation as was appointed to the staff of the Corporation in accordance with the provision of section 26.

PENSION SCHEME, ETC., FOR STAFF

36. The Board of Directors may establish and regulate a pension scheme or provident fund for the payment of pensions, gratuities or retiring allowances to members of the staff of the Corporation and, a widows' and orphans' pension fund or scheme for providing pensions to the widows and orphans of deceased members of the staff, and may require contributions to be made to any such scheme or fund by members of the staff of the Corporation and may deduct such contributions from the salaries or wages of such members and may make contributions to any such scheme or fund from the revenues of the Corporation.

VALIDITY OF ACTS AND PROCEEDINGS OF THE BOARD OF DIRECTORS

37. No act or proceeding of the Board of Directors shall be invalidated by reason only of the existence of any vacancy among its members or any defect in the appointment of a member thereof.

NOTES

POWER TO EXEMPT THE CORPORATION FROM THE PROVISIONS OF CERTAIN ORDINANCES

38. (1) The Minister who for the time being is in charge of the subject of Crown lands may, by Order published in the Gazette, exempt the Corporation from any such provisions of any of the following Ordinances as may be specified in the Order :

Crown Lands Encroachments Ordinance
Crown Lands Ordinance, No. 8 of 1947
Definition of Boundaries Ordinance
Fauna and Flora Protection Ordinance
Forest Ordinance
Land Development Ordinance.

(2) An Order made and published under sub-section (1) shall have the force of law.

REGULATIONS

39. (1) The Minister may make regulations for the purpose of carrying out or giving effect to the principles and provisions of this Act and in respect of all matters for which regulations are authorized or required by this Act to be made.

(2) No regulation made by the Minister under sub-section (1) shall take effect unless it is approved by the Senate and the House of Representatives and is published in the Gazette together with a notice of such approval.

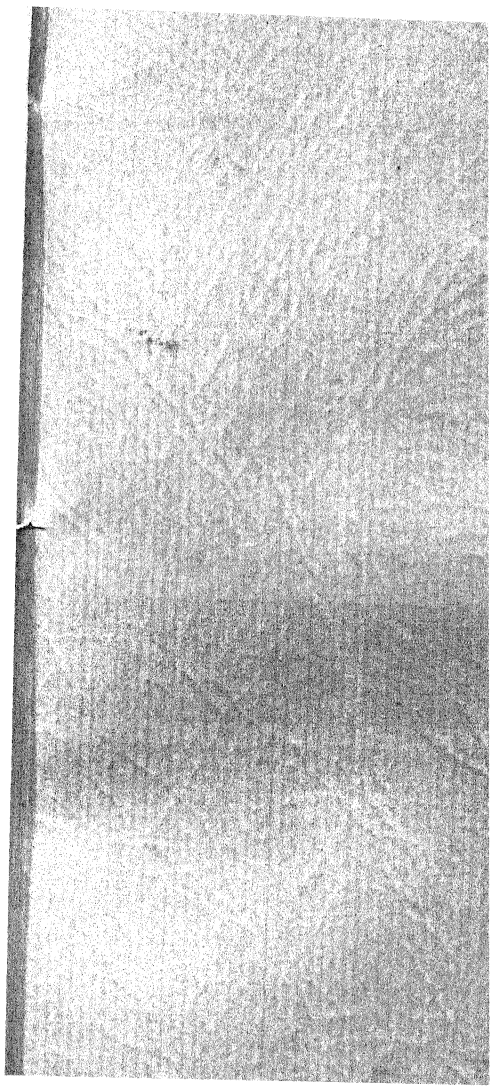
INTERPRETATION

40. In this Act, unless the context otherwise requires :

"Board of Directors" means the Board of Directors of the Corporation; and

"director" means a member of the Board of Directors.

New India Press, New Delhi.



SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

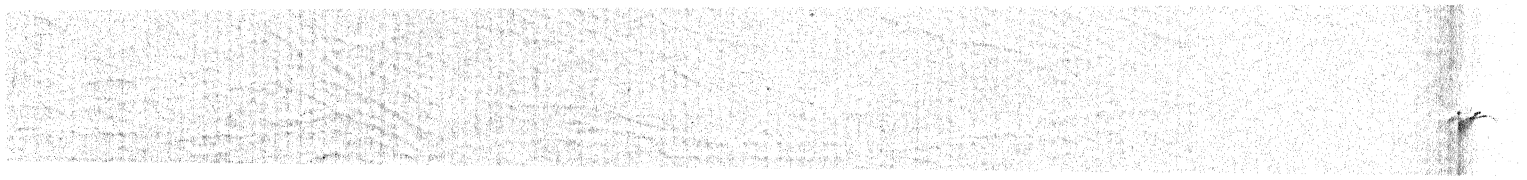
MANAGEMENT OF PUBLIC INDUSTRIAL AND MINING ENTERPRISES IN THE REPUBLIC OF CHINA

BY
RONALD H. C. HO[1]

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Paper No. 24

1. This paper is issued as presented by the author, with a few minor editorial changes by the ECAFE secretariat.



MANAGEMENT OF PUBLIC INDUSTRIAL AND MINING ENTERPRISES IN THE REPUBLIC OF CHINA

By

RONALD H.C. HO*

HISTORICAL BACKGROUND

To understand the background of public industrial and mining enterprises in China (Taiwan), the following two points should be borne in mind.

Prior to 1945, Taiwan was governed by the Japanese under the principle of "agricultural development in Taiwan and industrialization in Japan." Taiwan was developed as a source of supply for raw materials to industries in Japan and as market for Japanese products. Taiwan, therefore, was very weak industrially till almost the latter half of the Second World War, when industrial development was intensified by the Japanese in order to meet war needs. However, this development was short-lived, for obvious reasons.

Previously, industrial and mining enterprises in Taiwan were operated either by the Japanese Government or Japanese nationals. At the end of the war, most of these enterprises were not operating. Because of the shortage of capital in the private sector, the Chinese Government had to take over these enterprises, initiate their rehabilitation and operate them as public enterprises.

As the industrial and mining enterprises then existing were poorly equipped, replacement and expansion were badly needed, in addition to the founding of certain essential enterprises. Some, after emergency repairs, were able to resume their operations within a short period. Certain public industrial enterprises were removed from the mainland China to Taiwan, and the Government embarked on the expansion of power and other industries, such as fertilizers, textiles and others.

Consequently, the present structure of public industrial enterprises in Taiwan is composed of those enterprises taken over from the Japanese and reorganized by the Government; those evacuated from the mainland China, and those which have been expanded or established in Taiwan since the end of the war (excluding those that were sold to private ownerships) as shown in table 1.

While a detailed analysis of the achievements of public industrial and mining enterprises in Taiwan will be made in the latter part of this paper, table 2 serves to indicate the development of these enterprises in two stages: the rehabilitation and the expansion after their being taken over from the Japanese in 1946.

*Mr. Ho is on the Research Staff of the Bank of Taiwan, Taipei, Taiwan, Republic of China.

It should, however, be noted that the public industrial and mining enterprises in Taiwan are by no means gradually increasing their monopolistic nature in the overall pattern. If an analysis and comparison of the value of production of public and private enterprises for the past years for each category of industrial or mining enterprises is made, (excluding public utilities, power, gas and water supply which are monopolies of the Government), it will be seen that the private sector has taken an increasing lead in the total national production. Even if public utilities are included in public enterprises, the value of production of public and private enterprises in 1952 is found to be 55 per cent and 45 per cent respectively. The percentage share of production for public enterprises will be much greater if figures of previous years are used. By 1958, this ratio changed to 44 per cent for public enterprises and 56 per cent for the private industrial sector.

PRINCIPLES AND OBJECTIVES

It has been provided, in article 144 of the Constitution, that "public utilities and other enterprises of a monopolistic nature shall, in principle, be under public operation. In cases permitted by law, they may be operated by private citizens". The Government operates public utilities and monopolistic enterprises in order to develop state capital and to prevent private monopolization of such enterprises. However, had development in every line been undertaken and had all such enterprises been operated by the state, there might not have been sufficient state capital. Special provisions have, therefore, been made to permit the operation of such enterprises by private interests.

In article 2 of the Statute for Control of Public Enterprises, it has been stipulated that "the aims of public enterprises are to develop state capital, to accelerate economic development and to facilitate the people's livelihood". As to what enterprises are monopolistic in nature, *i.e.*, the scope of public enterprises, the principles of the "Post-War Economic Enterprises System", promulgated in November 1945, provides that "in line with the objective of fostering state capital and in consideration of the limited private and public capital, the operation of post-war economic enterprises should be undertaken by the development of public enterprises with full efforts of the Government on the one hand and the extension of Government assistance to private enterprises, provided such assistance is not in violation of the principle of restricting private capital.

Under this principle, the post-war operation of economic enterprises may be classified into five categories : (*a*) public owned; (*b*) private owned; (*c*) jointly owned by public and private; (*d*) jointly owned by Chinese and foreign (jointly owned by Chinese Government or citizens and foreigners); (*e*) solely owned by foreigners.

Enterprises to be monopolized by the Government are, in the main, those directly connected with national defence, such as the manufacture of arms and ammunition and those monopolistic in nature, such as major railroads, postal and telecommunication services; large power plants and other public utilities. These either require large amounts of capital not available from the private sector or closely connected with social welfare and not suitable for private operation.

To meet the needs of changing conditions, the Government may allocate private or foreign operation of such enterprises by special approval or appointment. As to all other types of enterprises, no limitation is set on their ownership. They can be private, a joint venture of state and private capital, or Chinese and foreign capital, or entirely foreign investment. However, when private capital is not available, the Government may also operate such enterprises.

In implementing its "land-to-the-tiller" programme in 1953, the Government compensated the large landowners with payment of 70 per cent of the land cost in land bonds and 30 per cent in the stock distribution of

public enterprises. As a result of this payment in stocks, four public enterprises operated by the Taiwan Provincial Government, namely, the Taiwan Agriculture and Forestry Development Corporation, the Taiwan Industrial and Mining Corporation, the Taiwan Cement Corporation and the Taiwan Pulp and Paper Corporation, were transferred to private ownership. The net worth of these four enterprises were then valued at NT $1,000 million.

In 1951, the Government announced that "stocks of large scale public enterprises which need not be retained by the Government should be gradually sold to private owners and those small ones should be sold in their entirety to private operators with financial aid from the Government and tariff protection". In 1953, the "Statute for Transfer of Public Enterprises to Private Ownership" was promulgated for this purpose. Unfortunately, due to the lack of managerial experience, private operation of the four enterprises mentioned above has been unsatisfactory. No public enterprises, therefore, have been sold in recent years.

The present policy of the Government is to intensify the training of managerial staff for enterprises on the one hand and to step up the creation of an active capital market to channel national savings into industrial investment. It is hoped that, in the next few years, certain public enterprises which need not be run by the Government will be transferred to private ownership.

The following articles of the Public Enterprise Law will throw more light on the general attitude of the Government towards the operation of public enterprises :

(*a*) Public enterprises should be operated in the form of an enterprise, constantly seeking improvement and expansion. Their operation should be profitable, whenever possible, in order to increase the revenue of the Treasury. However, public enterprises for demonstration purposes or with specific instructions of the Government are exempted (article 4);

(*b*) Public enterprises have the same rights and obligations as private ones of identical classification, unless otherwise provided for by law (article 6);

(*c*) The rating on the operation of public enterprises which are considered essential by the Government but whose operation is not profitable at the initial stage shall not be based on the profit and loss condition of the enterprises concerned (article 30).

ANALYSIS OF ACHIEVEMENTS

Criteria of effective management

State operated economic enterprises are often criticized for lack of efficiency. However, the true meaning of efficiency is sometimes difficult to define. In general, the amount of profit is used as a criterion for measuring efficiency. Such is indeed the criterion for a private enterprise, but, it may not be applied in its entirety to public enterprises, since operation of some of such enterprises have direct connexion with national defence or social welfare. Enterprises of such nature may not be profitable, even if they have excellent management with a high degree of efficiency. On the other hand, some of the monopolistic enterprises may be very profitable, in spite of their low efficiency.

It has also been stated that efficiency of an enterprise can be measured by its low cost of production of its products or services. This is a matter of relativity which has its own shortcomings, inasmuch as there are different types of enterprises; varying operating conditions existing even for the same type of industrial units and different qualities for the same kind of product.

It is interesting to examine some aspects of operational efficiency, such as operating income; volume of production; unit cost of production; financial structure and profit and loss conditions.

The policy and purpose of the Government on the operation of public enterprises covering the following items may also be studied : balancing of the budget and international payments; increasing employment opportunities and national income; stabilizing price level and promoting private enterprises.

Industrial production statistics and data now published in Taiwan are all classified according to types of industry or product, but not according to the public or private ownership of the industries. Consequently, certain data used in this paper are the result of research undertaken by the writer. As the number of public enterprises is too numerous to be analysed one by one, the following eleven largest public industrial or mining enterprises under the direct management of the Ministry of Economic Affairs have been selected to be included in this analysis:

1. Taiwan Sugar Corporation;
2. Taiwan Fertilizer Company;
3. Taiwan Alkali Corporation;
4. Taiwan Machinery Mfg. Corporation;
5. Taiwan Shipbuilding Corporation;
6. China Textile Industrial Corporation;
7. Taiwan Aluminum Corporation;
8. Taiwan Steel Works;
9. Chinese Petroleum Corporation;
10. Taiwan Metal Mining Corporation;
11. Taiwan Power Company.

To present a clearer picture of the changes in development trends, percentages are being used in this analysis whenever possible. The two four-year economic development plans, which are the blueprints for economic reconstruction in Taiwan, also serve to indicate the growth of the management of public enterprises. As the first plan was started in 1953, 1952, the year prior to the implementation of the plan has been taken as the base year.

OPERATING EFFICIENCY

(*a*) *Operating income*

According to the statistics of the Ministry of Economic Affairs, the operating income of industrial and mining enterprises directly under its control rose from NT $2,100 million in 1952 to NT $6,100 million in 1957, as shown in the following indices :

1953	150
1954	142
1955	168
1956	230
1957	293

Total operating income was raised by 193 per cent in the course of six years against an increase of 53 per cent in the price index during the same period. The deflated increase in income may be considered "real expansion" (see table 4 for changes in the operating income of individual public industrial and mining enterprises).

(*b*) *Volume of production*

The expansion of enterprises is reflected not only comprehensively in the increase in operating income, but also in the increase of volume of production. Table 5 shows the trend of increase in the production of major products of selected public enterprises. In the past six years, the biggest increase was registered in the production of tinning sheets by the Taiwan Steel Works, an increase of 1,099 per cent. This was followed by an increase of 658 per cent in caustic soda by the Taiwan Alkali Corp. and 373 per cent in aluminium ingots by the Taiwan Aluminum Corp. All other products,

except the cotton yarn of the China Textile Industrial Corp., showed significant increases in production. The rapid development of the private textile industry in recent years has brought about a large increase in the supply of textile goods which, after meeting domestic needs, are available for export. Public textile mills however, restricted their output to the original level. Prior to securing a promising export market, no large-scale expansion of production was then contemplated.

Taiwan Sugar Corporation's failure to utilize its facilities fully for the production of sugar was caused by the limitations imposed by the International Sugar Council. However, pronounced achievements have been made in improving the quality of sugar, utilization and expansion of by-products.

(*c*) *Unit cost of major products*

The expansion in operating income or volume of production indeed contributes to economic growth and higher national income. However, from the standpoint of an enterprise, its primary aim is to reap the maximum amount of profit possible, or to lower its unit production cost to the minimum. The high or low unit cost, can, therefore, be used as a yardstick to measure the operating efficiency of an enterprise. Table 6 shows the unit cost index of selected public enterprises for 1952 to 1957, with the only exception of the Taiwan Alkali Corp., which recorded a fall in production cost. The costs of all other selected public enterprises registered increases of 10 to 60 per cent, more or less in line with the upward movement of the price level. Larger increases in cost were found in the production of fertilizer, liquid alkali, cotton yarn, tinning sheet and gasoline which were primarily caused by higher world price of imported raw materials required for production and the upward revision of foreign exchange rate.

Another indicator is the index of administrative cost, as released by the Ministry of Economic Affairs, which is given as follows :

Year	*Index*
1952	100
1953	103
1954	132
1955	131
1956	140
1957	175

Though the increase of 75 per cent in administrative costs in the course of six years is somewhat higher than the rise in the price index of the same period, it is still far below the climb in operating income. Using the volume of business as a yardstick, the administrative and general expenses can by no means be considered high which also partially contribute to the lower unit cost. Table 7 shows the administrative expense index of individual enterprises.

(*d*) *Financial structure*

The soundness of the financial structure of an enterprise can be revealed by a study of the trend and changes in "liquidity ratio", "net worth" and "working capital". The debt-paying ability of an enterprise is dependent on the liquidity ratio. The size of capital is reflected by the amount of net worth. Finally, changes in the turn-over of working capital and the degree of liquidity of assets are indicated by changes in the amount of working capital.

A turn for the better was registered in the liquidity ratio, net worth and working capital of the selected public enterprises of Taiwan from 1952 to 1957, with the exception of the China Textile Industrial Corp. and the Chinese Petroleum Corp., whose liquidity ratio had been lowered (see table 8). The improvements in the financial conditions of the Taiwan Fertilizer Co. and the Taiwan Power Co. are most pronounced. The liquidity ratio of the

Taiwan Fertilizer Co. was raised from 109 per cent to 266 per cent; its net worth rose by 687 per cent and working capital by 2,521 per cent. That of the Taiwan Power Co. rose from 113 per cent to 242 per cent; net worth and working capital by 623 per cent and 3,362 per cent respectively. Considerable improvement was also recorded in indentical items of the Taiwan Shipbuilding Corp.; Taiwan Aluminum Corp. and the Taiwan Metal Mfg. Crop.

(*e*) *Profit and loss condition*

From 1952 to 1957, significant increases in net profit were recorded annually in all the selected public enterprises with the exception of the Taiwan Shipbuilding Corp. and the Chinese Textile Industrial Crop., as shown in table 9. Big gains in net profit were made by the Taiwan Aluminium Corp. (4,049 per cent); Taiwan Steel Works (4,711 per cent) and the Taiwan Power Co. (2,418 per cent). These were followed by Taiwan Sugar Corp., Taiwan Fertilizer Co., Chinese Petroleum Corp. and Taiwan Machinery Mfg. Corp. with increases of 200 per cent to over 300 per cent.

GOVERNMENT POLICY AND PURPOSES OF OPERATION

(*a*) *Balancing the budget*

It has been provided, in the Public Enterprise Law, that "national enterprises should be operated on the basis of an enterprise seeking for development and profit to increase the revenue of the Treasury."

Because of the uninterrupted increase in volume of production and business, the amount of commodity tax, business tax, income tax and other taxes paid to the Treasury rose proportionally. As a result, their contribution to the budget has been significant.

While the total amount of profit surrendered by public enterprises accounts for only a small percentage of the total receipts of the budget, there has been a steady increase in recent years as shown below :

Year	*Percentage of profits to total budget receipts*
1953	3.65
1954	1.99
1955	3.47
1956	7.35
1957	10.03

It will be seen from the above that the ratio of profits of public enterprises to total budgetary receipts has risen by nearly three times from 1953 to 1957.

(*b*) *Balancing international payments*

Export proceeds of the products (sugar and molasses) of the Taiwan Sugar Corp. account for more than 50 per cent of the total export proceeds of Taiwan. In recent years, exports of industrial and mining products of other public enterprises, such as caustic soda, high octane gasoline, fuel oil, aluminium ingots, silver, coking coal, cotton yarn and cloth, have also

been vigorously pushed and have brought about significant results in the form of additional exchange earnings.

Year	*Percentage of*	
	Exchange earnings to total exchange receipts	*Exchange expenditures to total exchange expenditures*
1953	70.99	17.58
1954	67.42	22.47
1955	54.00	32.77
1956	61.48	32.62
1957	65.49	33.62

The above reveals that, from 1953 to 1957, the minimum ratio of exchange earnings of public enterprises to the total was in any year 54 per cent, while their maximum exchange expenditure to the total is only 33.62 per cent (excluding imports financed with United States aid funds). So far as public enterprises are concerned, their exchange income by far exceed their exchange spending, the balance of which is sold to the Government for allocation to the private sector to finance imports of capital equipment and raw materials required by private enterprises, consumer goods external payments of the Government, etc. The contributions made by public enterprises towards balance of payments has, therefore, been very impressive.

While directing their efforts to export in order to earn more foreign exchange, public enterpises in Taiwan are also at the same time increasing their production to meet domestic requirements which otherwise would have to be met with imports financed with foreign exchange. Chemical fertilizer provides a suitable illustration. Taiwan used to import large shipments of fertilizer for its agricultural needs which accounted for a lion's share of the total foreign exchange required for imports. Had not domestic output of fertilizer been immensely increased, the additional farm production in recent years would have caused a heavy drain on foreign exchange resources, and undoubtedly the amount of exchange for financing import of capital equipment and raw materials for industrial development would have been reduced correspondingly.

(*c*) *Increase in employment opportunities*

From the figures below, it will be seen that there has been a decrease in the total number of persons employed by public enterprises during the same period.

Ratio of total number of persons employed between public and private enterprises

Year	*All industrial and mining enterprises*	*Public enterprises*	*Private enterprises*
1952	100	100	100
1953	111	102	117
1954	117	93	130
1955	118	78	140
1956	123	82	146
1957	127	84	150

However, the following Sectors are worthy of note. As previously stated, the Government has, in recent years, sold many light industries to

private ownership. As more workers are required in light industries the number of workers in public enterprises has correspondingly declined. Power controlled modern equipment and machinery are installed in newly erected plants or in expansions of existing enterprises requiring less manpower.

Figures given above only represent those directly employed by public enterprises without taking into consideration jobs indirectly created in the private sector by the expansion of business of public enterprises. For instance, an increase in sugar production results in a much bigger increase in the number of sugarcane farmers than in the number of persons employed by the Taiwan Sugar Corp.

(*d*) *Contribution to increase in national income*

The following table shows the weight that public enterprises carry in the national income :

Percentage of income of public enterprises to national income

Year	*Compensation of employees*	*Operating surplus*	*Total*
1952	6.91	3.50	10.41
1953	6.56	3.71	10.27
1954	6.82	3.18	10.00
1955	5.23	4.52	9.75
1956	5.98	5.68	11.66
1957	6.34	5.90	12.24

It will be seen from the above that income of public enterprises constitutes about 10 per cent of national income.

(*e*) *Stabilizing price level*

The Government policy on operating public enterprises is not solely for seeking profit, but also for other purposes. As pointed out previously, the contributions made by public enterprises in the form of profits to the budget are not large which reflects the policy just stated. Based on this policy, the Government exercises a rigid control over the sales prices of products of public enterprises in order to stabilize the general price level. As a matter of fact, certain enterprises, being large in scale, are monopolistic in nature in their respective industries and may, for the sake of reaping high profits, fix their prices at will. However, in order to stabilize the general price level, the fixing of sales prices of many major products of public enterprises, such as power, fertilizer and industrial raw materials, requires the approval of the Ministry of Economic Affairs or other competent authorities who fix the price with due consideration to the cost of production and reasonable margin of profit on the one hand and its effect on the price of industrial products and the general price level on the other.

(*f*) *Promoting private enterprises*

In setting forth the Government's policy, it has been pointed out that, while public utilities and monopolistic enterprises will be operated by the Government, the private sector is encouraged to take up other industries so as to push the development of a free enterprise system. The transfer of certain textile mills and other light industries run by the Government to private ownership is now in the planning stage. To help the establishment of private enterprise, the Government has assisted in the development of power, the backbone of all modern industries. In addition, the provision of better transportation facilities and adequate supply of industrial and mining raw materials and equipment are some of the other contributions made by public enterprises in recent years.

IMPROVEMENT IN MANAGEMENT

Significant improvements have been made in the operation, technique and management of public enterprises in the Republic of China in recent years which have made valuable contributions to the national economy. Government agencies in charge of public enterprises are constantly making reviews and seeking for improvement so that modern management of enterprises can be instituted.

MANAGEMENT POLICY

Enterprises offering services to the general public aim at maintaining a balance in their operating income and expenditure in order to raise their efficiency and lower the burden of the people. The ratio of return or profit is determined according to those private enterprises of the same category so as to foster fair competition.

DEMARCATION OF RESPONSIBILITIES IN ORGANIZATION AND MANAGEMENT

Public enterprises in the form of an administrative agency are reorganized into corporations to become legal entities which assume all rights and obligations of corporation as provided in the Company Law, such as possession of property, signing of contracts, institution of litigation and payment of taxes, etc.

The supervision of a Government agency in charge of public enterprises attempts to use modern management control techniques with emphasis on the following:

(*a*) the planning of establishment, expansion and merger of enterprises and co-ordination of operation among different enterprises;

(*b*) the audit and review of budget and operation plans;

(*c*) the review and approval of organic regulations and personnel of public enterprises according to their scope of operations;

(*d*) the inspection of operation in its processes and ratings of operational results;

(*e*) the appointment and rating of directors and supervisors.

PERSONNEL SYSTEM

Personnel of public enterprises must be just, respect the law, be honest and be responsible. They should, in addition, be constantly striving for improvement. Jobs which can be performed on a piece basis should be paid on a piece basis in order to bring about efficiency. Special bonus or awards are given to staff and workers who make special contributions or suggestions for the improvement of production process, operation and management systems.

BUDGET, FINANCE AND ACCOUNTING

(*a*) *Budget*

The budget of respective enterprises should be flexible and be adjusted according to their production and sales. The fixed cost and variable cost of different enterprises should be determined according to the special characteristics of various enterprises. The operation unit should be responsible for the execution of the budget, while budget control should be exercised by the account unit. In preparing the budget, the loss and profit, assets and liabilities and cash position at the end of the period should be taken into consideration used as a criterion for rating the efficiency of the enterprise concerned.

(*b*) *Accounting*

Each enterprise should have its own cost accounting system inasmuch as industries and even enterprises within the same industry vary on account of circumstances and scope of business.

Internal control is the principal instrument for preventing irregularities, errors and raising efficiency in carrying out operation policy. In addition to a sound accounting system an effective internal control system is required so that highest efficiency can be attained.

(*c*) *Finance*

Bank credit is the main source of supply of working capital required by public enterprises. However, credit for working capital should be limited to seasonal needs. Regular working funds should be obtained by the discounting of eligible papers on transaction basis.

Capital outlays for replacement (or expansion of public enterprises should be primarily financed with depreciation reserves, corporate bonds and savings deposits of banks. If necessary, procurement of such capital equipment may be made on instalment payments.

TECHNIQUE AND MANAGEMENT

Technicians are constantly sent abroad for in-service training under United States technical aid programmes. If necessary, foreign technicians should be engaged.

Large scale enterprises should have their own research units to pursue technical advancement so as to acquire modern production techniques.

Seminars on scientific management methods are regularly conducted by both Chinese and foreign experts under the auspices of the China Productivity and Trade Centre.

TABLE 1

STRUCTURE OF MAJOR PUBLIC INDUSTRIAL AND MINING ENTERPRISES OF TAIWAN

(A) Enterprises taken over from the Japanese which have been reorganized and expanded

Name of enterprise	*Percentage of shares held by Govt.*	*Type*	*Major products*
Taiwan Power Company	97.17	National	Power generation
Taiwan Aluminium Corp.	100.00	National	Aluminium ingots and products
Taiwan Metal Mining Corp.	100.00	National	Gold, electrolytic copper
Taiwan Steel Works*	100.00	National	Hot rolled sheet, galvanized sheet, tinning sheet
Agricultural Chemical Works	100.00	National	Industrial BHC
Hsin Chu Coal Mining Adm. .	100.00	National	Coking coal
Taiwan Shipbuilding Corp.**	98.95	National	Ship repair and building machinery manufacture
Taiwan Sugar Corp.	97.17	Joint National and Provincial	Raw sugar
Taiwan Fertilizer Company	98.77	Joint National and Provincial	Chemical fertilizer
Taiwan Machinery Mfg. Corp.	96.97	Joint National and Provincial	Repair and manufacture of machinery and ships
Taiwan Alkali Corp.	100.00	Joint National and Provincial	Caustic soda
Taiwan Agricultural & Industrial Development Corp.	100.00	Provincial	Steel and iron, machinery, flour, wheat, bran

*Merged with the Taiwan Machinery Mfg. Corp. in October 1958.
**Leased to Ingalls-Taiwan Shipbuilding and Drydock Corp. since 1957.

(B) Enterprises evacuated from mainland China

Name of enterprises	*Percentage of shares Held by Govt.*	*Type*	*Major products*
Chinese Petroleum Corp.	100.00	National	Petroleum products
Taiwan Salt Works	100.00	National	Salt
Bureau of Engineering Service, Ministry of Economic Affairs	100.00	National	Repair of heavy equipment and construction
China Textile Industrial Corp.	99.50	National	Cotton yarn and cloth
Taipei Textile Corp.	99.70	Investment by a public enterprise	Cotton yarn and cloth
Jong Been Textile Corp.	58.74	Investment by a public enterprise	Woolen textiles and yarn
Yung Shing Industrial Corp.	94.20	Investment by a public enterprise	Cotton yarn and cloth
I-Min Textile Mills Corp.	100.00	Investment by a public enterprise	Cotton cloth
(C) Enterprises erected after World War II			
Hua-lien Nitric Fertilizer Corp.	100.00	Joint National and Provincial	Chemical fertilizer
Kao Hsiung Ammonium Sulphate Corp.	100.00	Provincial	Chemical fertilizer

Source : Compiled from primary sources.

TABLE 2

DEVELOPMENT OF PUBLIC ENTERPRISES REORGANIZED AFTER THE SECOND WORLD WAR

Name of enterprise	*Major product*	*Base :* 1945=100	*1957 Production index base : Peak production before* 1945=100	*Remarks*
Taiwan Sugar Corp.	Raw Sugar	1,007	63	Production limited by quota imposed by International Sugar Council.
Taiwan Fertilizer Company	Chemical fertilizer	4,104	802	Pre-war peak production was surpassed in 1948. If new plants were included, present production is 1,047 per cent of pre-war peak.
Taiwan Alkali Corp.	Caustic Soda	2,200	559	Pre-war peak production was surpassed in 1948.
Taiwan Machinery Mfg. Corp.	Machinery manufacture	889	..	Pre-war peak production not available.
Taiwan Shipbuilding Corp.	Ship repair	..	132	Equipment was entirely destroyed during the war.
Taiwan Aluminium Corp.	Aluminium ingots & sheets etc.	552	87	Major portion of equipment destroyed during the war.
Taiwan Steel Works	Tinning sheet, etc.	..	..	Equipment entirely destroyed during the war. Pre-war peak production not available.
Taiwan Salt Works	Salt	178	151	Pre-war peak production was surpassed in 1948.
Agricultural Chemical Works	B H C	..	..	Equipment entirely destroyed during the war. Pre-war peak production not available.
Hsin Chu Coal Mining Adm.	Coking coal	107	99	
Taiwan Metal Mining Corp.	Electrolytic copper	386	57	
Taiwan Power Company	Power generation	610	571	Pre-war peak production was surpassed in 1947.

Source : Compiled from primary sources.

TABLE 3

A COMPARISON OF VALUE OF PRODUCTION BETWEEN PUBLIC AND PRIVATE INDUSTRIAL AND MINING ENTERPRISES, 1952-1958.

Year	*Percentage of production value of private enterprises*	*Percentage of production value of public enterprises*	*Total Percentage*
(A) *Mining*			
1952	72.90	27.10	100
1953	75.33	24.67	100
1954	69.44	30.56	100
1955	73.45	26.55	100
1956	79.72	20.28	100
1957	83.43	16.57	100
1958	85.16	14.84	100
(B) *Manufacturing*			
1952	45.52	54.48	100
1953	47.37	52.63	100
1954	52.94	47.06	100
1955	56.19	43.81	100
1956	55.47	44.53	100
1957	53.79	46.21	100
1958	56.88	43.12	100
(C) *Construction*			
1952	..	..	..
1953	75.88	24.12	100
1954	80.73	19.27	100
1955	84.01	15.99	100
1956	82.64	17.36	100
1957	79.08	20.92	100
1958	71.61	28.39	100

(TABLE 3 *continued*)

(D) *Public Utilities*				
1952 ..	0	100	100	
1953 ..	0	100	100	
1954 ..	0	100	100	
1955 ..	0	100	100	
1956 ..	0	100	100	
1957 ..	0	100	100	
1958 ..	0	100	100	

Source : Compiled from *Industry of Free China.*

TABLE 4

OPERATING INCOME INDEX OF SELECTED PUBLIC ENTERPRISES OF TAIWAN, 1952 TO 1957

Base : 1952=100

Name of enterprise	*1953*	*1954*	*1955*	*1956*	*1957*
Taiwan Sugar Corp. ..	183	142	155	221	321
Taiwan Fertilizer Company	118	141	117	171	251
Taiwan Alkali Corp. ..	139	171	167	191	251
Taiwan Machinery Mfg. Corp.	122	127	161	225	274
Taiwan Shipbuilding Corp.	108	112	164	227	237
China Textile Industrial Corp.	131	170	256	379	265
Taiwan Aluminium Corp. ..	153	228	233	295	388
Taiwan Steel Works ..	123	871	430	474	694
Chinese Petroleum Corp. ..	113	172	257	353	372
Taiwan Metal Mining Corp.	181	205	307	420	486
Taiwan Power Company ..	136	155	218	284	360

Source : Compiled from data of Directorate-General of Budget, Accounting and Statistics and Ministry of Economic Affairs.

TABLE 5

PRODUCTION INDEX OF MAJOR PRODUCTS OF SELECTED PUBLIC ENTERPRISES OF TAIWAN
1952-1957

Base : 1952=100

Name of enterprise	*Name of product*	*1953*	*1954*	*1955*	*1956*	*1957*
Taiwan Sugar Corp.*	Raw sugar	186.63	133.49	170.61	156.47	109.50
Taiwan Fertilizer Company	Calcium cyanamide	107.60	105.40	106.90	109.50	109.50
	Calcium superphosphate	111.40	125.80	113.80	162.30	166.93
Taiwan Alkali Corp.	Liquid caustic soda (41%)	345.27	400.96	391.01	550.10	757.66
Taiwan Machinery Mfg. Corp.	Machinery manufacture	104.07	106.36	117.35	103.96	469.87
	Shipbuilding	248.52	282.28	62.03	371.30	143.46
	Vehicle manufacture	116.67	54.25	169.61	180.06	129.41
Taiwan Shipbuilding Corp.**	Shipbuilding	84.41	263.72	273.48	286.69	..
China Textile Industrial Corp.	Cotton yarn	97.73	100.34	105.04	96.48	96.57
Taiwan Aluminium Corp.	Aluminium ingots	123.64	124.72	182.55	448.26	138.59
	Aluminium plate	115.53	..	192.23	383.50	473.06
Taiwan Steel Works	Tinning sheet	497.51	1,344.71	599.67	1,008.14	1,199.12
Chinese Petroleum Corp.	Gasoline	264.77	332.17	409.56	394.23	451.98
Taiwan Metal Mining Corp.	Electrolytic copper	78.66	101.81	163.88	209.60	238.21
Taiwan Power Company	Power generated	112.96	130.37	141.99	162.46	184.51

Source : Compiled from data of Directorate-General of Budget, Accounting and Statistics and Ministry of Economic Affairs.

*Production limited by quota imposed by International Sugar Council.

**The Corp. was leased to Ingalls-Taiwan Shipbuilding and Drydock Corp. since 1957.

TABLE 6

INDEX OF UNIT COST OF MAJOR PRODUCTS OF SELECTED PUBLIC ENTERPRISES OF TAIWAN
1952-1957

Base : 1952=100

Name of enterprise	*Name of product*	*1953*	*1954*	*1955*	*1956*	*1957*
Taiwan Sugar Corp.	Raw Sugar	90.51	100.16	95.85	107.18	140.96
Taiwan Fertilizer Company	Calcium cyanamide	102.76	102.29	98.52	118.65	145.58
	Calcium superphosphate	104.82	113.31	135.12	146.91	166.47
Taiwan Alkali Corp.	Liquid caustic soda (41%)	67.31	67.86	68.28	78.91	73.79
	Liquid caustic soda (32%)	89.44	83.74	81.54	84.28	91.90
	Hydrochloric acid	94.38	70.90	71.65	72.50	74.04
	Luquid chlorine	82.07	92.79	89.40	95.19	101.73
China Textile Industrial Corp.	Cotton yarn	100.00	92.44	97.15	126.23	152.63
Taiwan Aluminium Corp.	Aluminium ingots	89.02	80.62	92.98	105.00	123.27
	Aluminium plate	85.47	81.56	92.98	109.76	120.24
Taiwan Steel Works	Tinning sheets	100.29	97.16	148.42	164.20	172.23
Chinese Petroleum Corp.	Gasoline	118.33	110.20	131.67	152.44	157.81
Taiwan Metal Mining Corp.	Electrolytic copper	155.57	218.78	217.43	264.83	315.05
Taiwan Power Company	Power generated	92.04	107.90	128.21	140.44	139.18

Note : The Taiwan Machinery Mfg. Corp. and the Taiwan Shipbuilding Corp. have been deleted in this table, because it is impossible to select their representative products as they are engaged in the building and repair of machinery and vessels.

Source : Compiled from data of Directorate-General of Budget, Accounting and Statistics and Ministry of Economic Affairs.

TABLE 7

INDEX OF ADMINISTRATIVE EXPENSES OF SELECTED PUBLIC ENTERPRISES OF TAIWAN, 1952-1957

Base : 1952=100

Name of enterprise	*1953*	*1954*	*1955*	*1956*	*1957*
Taiwan Sugar Corp.	132	144	110	112	123
Taiwan Fertilizer Company	109	115	133	161	164
Taiwan Alkali Corp.	102	153	168	176	198
Taiwan Machinery Mfg. Corp.	116	128	139	135	154
Taiwan Shipbuilding Corp.	115	135	136	153	153
China Textile Industrial Corp.	127	164	208	224	236
Taiwan Aluminium Corp.	71	123	219	215	181
Taiwan Steel Works	106	126	140	143	143
Chinese Petroleum Corp.	116	190	218	245	232
Taiwan Metal Mining Corp.	67	66	77	80	78
Taiwan Power Company	104	128	114	139	149

Source : Compiled from data of Directorate-General of Budget, Accounting and Statistics and Ministry of Economic Affairs.

TABLE 8

ANALYSIS OF FINANCIAL STRUCTURE OF SELECTED PUBLIC ENTERPRISES OF TAIWAN
1952-1957

	Liquidity ratio						Changes in net worth (Base : 1952=100)					Changes in working capital (Base : 1952=100)				
Name of enterprise	*1952*	*1953*	*1954*	*1955*	*1956*	*1957*	*1953*	*1954*	*1955*	*1956*	*1957*	*1953*	*1954*	*1955*	*1956*	*1957*
Taiwan Sugar Corp.	142	142	137	138	143	143	99	102	292	312	321	— 3	— 2	+ 25	+ 68	+ 88
Taiwan Fertilizer Com.	109	146	171	143	327	266	610	642	661	677	687	+ 359	+ 514	+ 501	+3955	+2521
Taiwan Alkali Corp.	150	574	216	315	194	138	251	260	599	608	657	+ 206	+ 105	+ 162	+ 130	+ 69
Taiwan Machinery Mfg. Corp.	109	116	105	118	110	117	97	116	542	585	634	+ 127	— 3	+ 254	+ 190	+ 707
Taiwan Shipbuilding Corp.	117	106	111	130	150	179	108	426	1,069	1,175	1,175	— 61	— 4	+ 253	+ 657	+ 300
China Textile Industrial Corp.	365	321	368	277	183	178	99	123	133	121	123	+ 104	+ 85	+ 114	+ 57	+ 82
Taiwan Aluminium Corp.	127	150	159	117	126	130	131	167	354	430	442	+ 132	+ 254	+ 29	+ 146	+ 228
Taiwan Steel Works	92	102	101	142	124	121	113	115	270	271	259	+ 181	+ 126	+ 777	+ 703	+ 687
Chinese Petroleum Corp.	239	332	217	140	140	144	118	154	286	316	332	+ 37	+ 87	— 9	+ 6	+ 65
Taiwan Metal Mining Corp.	81	67	56	110	111	112	139	111	705	818	799	— 86	— 192	+ 162	+ 197	+ 259
Taiwan Power Com.	113	296	433	276	246	242	114	601	597	598	623	+1126	+2360	+1963	+2624	+3362

Source : Compiled from data of Ministry of Economic Affairs and respective public enterprises.

SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

STRUCTURAL AND OPERATIONAL ASPECTS OF PUBLIC (ESPECIALLY INDUSTRIAL) ENTERPRISES IN INDONESIA[1]

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Paper No. 25

1. Paper prepared by Dr. Mohammad Sadli who is the Executive Director of the Institute for Economic and Social Research, a research arm of the Faculty of Economics of the University of Indonesia in Djakarta, with a few minor editorial changes by the ECAFE secretariat. He is also Senior Lecturer at the same faculty. Opinions stated in this paper are strictly his responsibility in so far these do not concur with those held as official.



CONTENTS

		Page
Introduction :	Scope of state enterprises in the development of the country	2
Part I :	Structure and form of public enterprises	3
	The IBW Enterprises	4
	The State Industrial Bank and its daughter companies	6
	The taken-over (formerly Netherlands-owned) enterprises	8
	The ICW Enterprises	9
Part II :	Operation problems	10
	Enterprise objectives	10
	Public and social control	12
	Pricing and marketing	13
	Financing	15
	Supplies	16
	Personnel and labour	17
	Training	19
	Internal efficiency	20
Part III :	Summary and conclusions	21

STRUCTURAL AND OPERATIONAL ASPECTS OF PUBLIC (ESPECIALLY INDUSTRIAL) ENTERPRISES IN INDONESIA

By
MOHAMMAD SADLI

INTRODUCTION

SCOPE OF STATE ENTERPRISES IN THE DEVELOPMENT OF THE COUNTRY

The social and political philosophy of the Republic of Indonesia has always been socialistically inclined. It has its roots in the revolutionary struggle for the country's independence. Anti-imperialism and colonialism, and anti-capitalism, have always been the leading ideologies in this struggle.

The country believes that conscious development effort should be a major concern of the state. The state is to assume the role of agent of development, and is regarded as a chief instrument for achieving the welfare of the people.

Economic development and economic activity are conceived as collective actions, and the idea of liberal capitalism is commonly frowned upon. The present Constitution (of 1945) states in article 33 : "(1) The economy should be constructed as a cooperative action, based on the principle of family spirit,* (2) Branches of production which are important to the State and affect the welfare of many should be controlled by the State." All this, however, does not mean that private enterprise is negligible in Indonesia. All of the large number of enterprises taking care of consumer wants in every city, such as furniture, clothing, ceramics, bottled drinks, ice, bakery products, shoes, etc., are privately owned, and these may well account for a greater share of the national product than do the public enterprises. Moreover, during the first years of recognized independence there was a determined action, supported by heavy capital subsidies, to foster the growth of private enterprises, mostly import firms.

Until the end of 1957, Netherlands firms were still dominant in the commercial, banking, and directly productive sectors (estates and manufacturing). After the so-called West Irian action (December 1957), however, and the consequent severance of practically all commercial ties with the Netherlands, the Netherlands enterprises were taken over, and a great many of them (so far mostly estates) were nationalized soon thereafter. This action had important consequences beyond its original form of political

*"Family spirit" is meant as a literal translation of the Indonesian word "*kekeluargaan*", which stems from "*Keluarga*", i.e., family. Another popular translation is "cooperation", advocated by Dr. Mohammad Hatta, the ex-Vice President of the Republic. Dr. Hatta is regarded as the father of the Indonesian cooperative movement. Hence in his concept cooperation is linked with the cooperative movement.

reprisal against the Netherlands. Domestically, it set off a wave of opinion, enforced by the concept of guided democracy and guided economy of President Sukarno, that the Government should have a larger share in economic activities. When a business conference was held in East Java to deliberate on the future of the taken-over estates (more than 400), strong, although at the time still local, protest was raised against eventual return of these enterprises to private ownership, either national or foreign. The army, especially, stood very firm in this regard, but so did important regional political groupings.*

At the present moment it looks as if the sector of state enterprise will be an increasingly dominant one. Where the dividing line will be between state and private enterprise has not been decided upon as yet, *in concreto*, but the odds are at present in favour of state enterprise. Public control over industries and state ownership of vital or essential industries will always be favoured politically, but the proper interpretation of such concepts as "vital" and "essential" , and the nature and extent of "public control", are still open to controversy. It is here that the ideas of major political parties differ.

In practice, however, the relative magnitude of state and private enterprise will be strongly influenced by the availability of capital. Because the indigenous private sector has still very limited capital resources, it is certain that the public sector will demonstrate a much faster rate of growth, unless public funds are channelled into private hands, as happened in 1950-52 when the Government wanted to facilitate the growth of indigenous import firms. The relative failure of the latter policy in the recent past will not make it very likely that the Government will again engage in such a policy. Where private capital is available, and the foreign currency situation allows it, private entrepreneurs can set up industrial establishments. But it is more likely that at least the larger-scale factories, which require greater initial capital, will be set up and owned by the state. In such a non-vital industrial sector as the textile industry, for instance, weaving mills are privately owned, but the spinning section, because of heavier capital requirement, most likely will develop as a state-dominated industry. The role of foreign loans (to the Government) in the development of certain industrial sectors also contributes to this trend. In the long future, however, ultimate settlement of the balance will be strongly influenced by historical incidents and shifting political forces.

PART I

STRUCTURE AND FORM OF PUBLIC ENTERPRISES

The public enterprises have various business forms. Before the war, the most significant type was perhaps the IBW-form. This is a public corporate body established under a special law. There is one master law for these state enterprises dating from 1927, and amended in 1930.

Since the war, a favourite business form for larger-scale public enterprises has been the private corporation *i.e.*, the limited liability corporate form. For instance, all subsidiaries of the State Industrial Bank are incorporated in this form. Mixed enterprises involving the state and foreign private parties are also set up in such a form, for instance an oil company, the Garuda Airlines at one time, etc.

Various ministries, for instance the Ministry of Industries, have small and medium-scale industrial establishments, usually of a non-commercial character; these establishments have no distinct business form of their own but are agencies within the government bureaucracy.

*In 1958, because of the West Irian action and the rebellion in the outer islands, the army became a major political factor in the country. On the basis of the State of War and Siege it assumed responsibility over security and labour peace in the taken-over Dutch enterprises.

Some of these public industrial or commercial enterprises although basically regarded as government services, have more independence because they are set up as public foundations. As foundations, they acquire the status of an independent corporate body entitled to perform legal acts. The foundation form also characterises their non-commercial purposes.

Finally, there is a large group of undertakings which does not have a clear and permanent legal status as yet. These undertakings are the taken-over (formerly Netherlands) enterprises which are now administered by the government.

THE IBW ENTERPRISES

The state enterprises established under the "Indische Bedrijven Wet 1927" (Indies' law on state enterprises) are of a mixed character. Some of them are public utilities, others are mining, manufacturing, or service industries on a non-public utility nature. The common feature is the type of public control to which these enterprises are subjected.

The present list consists of the following enterprises :

1. The State Pawnshop Service	supervised by the	Minister of Finance	
2. The State Salt and Soda Enterprise	,,	,,	Minister of Industry
3. The State Agricultural Enterprises (about 30 units under one managing board)	,,	,,	Minister of Agriculture
4. The State Printing Plant	,,	,,	Minister of Information
5. The Post, Telegraph, and Telephone Service	,,	,,	Minister of Communication
6. The State Electricity Enterprise	,,	,,	Minister of Public Works
7. The Port of Makasar Authority	,,	,,	Minister of Communication
8. The Port of Teluk Bajur Authority	,,	,,	,, ,,
9. The Port of Belawan Authority	,,	,,	,, ,,
10. The Port of Semarang Authority	,,	,,	,, ,,
11. The Port of Tandjung Priok Authority	,,	,,	,, ,,
12. The Port of Surabaya Authority	,,	,,	,, ,,
13. The Port of Palembang Authority	,,	,,	,, ,,
14. The Banka Tin Enterprise	,,	,,	Minister of Industry
15. The Bukit Assam Coal Mines	,,	,,	,, ,,
16. The Umbilin Coal Mines	,,	,,	,, ,,
17. The State Railways	,,	,,	Minister of Communication
18. The Topographic Service	,,	,,	Minister of Defence
19. The Surbaya Marine Establishment	,,	,,	,, ,,
20. The "Pasteur" Institute for Serum & Vaccine	,,	,,	Minister of Health

These enterprises are required to submit their annual budgets, both operating and capital, to the Parliament through the State budget. Administratively, they are supervised by cabinet ministers to co-ordinate enterprise policies with broad national policies. Certain issues, *e.g.*, railway rates, even require the consent of the full cabinet. Budget-wise, however, these enterprises have to work through the Ministry of Finance, because their budgets are presented as an item of the budget for that Ministry. All IBW enterprises appear under one category (budget item IVa). The enterprise budget presented to Parliament consists of an operating budget and a capital budget. An amortization allowance and an interest payment item appear in the exploitation budget, and these amounts together with the operating balance (the profit) have to be transferred to the Treasury. Hence, the only cash the enterprise can retain is for current and cash expenses. In the capital budget are listed the requirements for replacements and expansion and the total amount has to be approved by the Treasury, which means that the enterprises cannot make use at their own discretion of the funds set aside for amortization and contingencies. Finally, the whole budget has to be approved by Parliament, although this is frequently no more than a routine operation, since the real seat of financial control is the Treasury.

This financial dependence on an outside body, which is not always concerned about enterprise stability and productivity, constitutes a major weakness in the structure of the IBW enterprises.* The financial handicap, however, is not the only problem of the enterprises. Although called enterprises most IBW units are run as ordinary agencies of government service, especially with respect to personnel administration. Pay scales and procedures for promotion do not differ from those of other government agencies. Exceptions are the State Agricultural Enterprises which have their own pay scales, and the State Electricity Enterprise and the Banka Tin Enterprise which give their employees extra allowances on top of their basic salaries. This inflexibility of personnel administration has proved to be a major obstacle to efficient enterprise operation, especially in times of severe inflation.

Nominally, the original IBW law does not require that pay scale and personnel administration be the same as those of ordinary services, and before the war the various IBW enterprises had their own independent regulations in this respect. But during the Japanese occupation and in the early period thereafter these enterprises were reorganized and included in the various welfare ministries as ordinary services. Only after independence were the former IBW enterprises restored to their original status, but in effect this was only so for budgetary purposes and the structure of personnel administration was not brought back to its original form. In the meantime the IBW family acquired new members through the establishment of new factories (*e.g.* a soda factory) and through nationalization of private utility companies (*e.g.* a part of the railroad system and some of the electricity companies) and in this transfer pay scales for existing personnel were often held intact, so that in one IBW enterprise there may be more than one salary scale. This is also true of the pension funds. New recruitment, however, follows the general government salary regulations in most IBW enterprises.

The IBW enterprise form had worked comparatively well under Netherlands administration before the war, when inflation and budget deficits were never a problem (often even the reverse). But one must not forget that then both the Government and enterprises were much better staffed, and that enterprises administration was not too much entangled with government bureaucracy.

---

*For the sake of impartiality we have to record here the argument of the Treasury that IBW enterprises often present unrealistic budgets which the Treasury then feels compelled to correct. These unrealistic budgets are blamed on improper enterprise administration because of lack of adequate personnel. The enterprises, however, once discouraged and accustomed to the restrictive attitude of the Treasury, respond by presenting budgets which are more wishful thinking.

On the whole, these IBW enterprises are profitable operations, but we would hesitate to attribute this to superior efficiency. Moreover, depreciation formulae are outdated and this tends to inflate profits. At the present time, the State Agricultural Enterprises and the Banka Tin Enterprise are making the largest profits. At the same time, their efficiency is better than of the other enterprises. This is attributable partly to greater freedom in price policies, because these enterprises work for a foreign market, and partly to greater managerial discretion internally, especially with regard to personnel problems. The Treasury also tends to be more accommodating to profitable enterprises which earn foreign currency. In 1956 these IBW-enterprises together contributed Rp 476 million, in 1957 Rp 355 million, and in 1958 Rp 446 million to the Treasury in profits. These amounts are respectively 2.6 per cent., 1.8 per cent, and 2.1 per cent of total government revenues. The railways regularly show a loss but this is particularly because of rates which are held too low and which the Government did not want to raise because of fear of political implications. Hence, the railways are at present complaining greatly because of the absolute inadequacy of replacements and even maintenance. A complicating factor is that, for the railways, such expenditures always require a huge amount of foreign currency, which the national economy often cannot bear.

THE STATE INDUSTRIAL BANK AND ITS DAUGHTER COMPANIES

The State Industrial Bank (*Bank Industri Negara*) is not an ordinary banking institution, because it does not accept deposits from the public, and only recently did it open a current account for its subsidiaries (called daughter companies).

The Bank was established in 1951, but at the beginning there was no clear idea as to what form it should take. An earlier proposal to set up the Bank as a private corporation was rejected by the Minister of Justice, on the ground that a state bank should not have such a form. The next year the Bank obtained its legal bases as a state corporation by a law which regulates its goal, structure, and form of government control.

The main source of capital is the Treasury, and an amount of Rp 500 million was to be successively appropriated to the Bank through the State budget. At the present time, Rp 498 million has been paid up. In the meantime, however, with the aid of the Government, the Bank acquired additional loan capital of about Rp 500 million in bonds, Rp 300 million of it from blocked accounts of foreign firms (the so-called *Rurni* account), and the rest from institutional subscribers. The first bonds bear an interest rate of 3 per cent and the second of 5½ per cent.

The Bank has a financial interest in many industrial enterprises, but the greater part of the 3 per cent *Rurni* bonds has been used to finance a housing development scheme for government employees. Its financial interest in the enterprises ranges from sole stockholdership, through voting majority, to long-term creditorship. The subsidiaries have a limited liability company form, of which the more important ones are : the new cement plant at Gresik near Surabaya (capacity 250,000 tons a year); a spinning plant in Tjilatjap, Central Java (capacity 30,000 spindles); another spinning plant in Semarang (potential capacity : 30,000 spindles, but only partly used because of lack of electricity); two automobile assembly plants in Djakarta (total capacity about 50 vehicles a day); a hardboard factory in Banjuwangi, East Java (capacity about 1,500 ton hardboard a year); a glass and bottle factory in Surabaya (capacity 25,000 kg. of bottles and 25,000 kg. of glass a day); a tire factory in Djakarta (capacity 200,000 tires a year); a printing ink factory in Djakarta (capacity 25 tons a month); a paper factory in Blabak, Central Java (still under construction, expected capacity 25,000 kg. paper and 19,000 kg. pulp a day); a soybean milk factory in Jogjakarta, Central Java; a gold mine processing plant in Tjikotok, West Java; a rosella fibre bags and sacks plant in Surabaya (capacity 125,000 sacks a month); a

cigar factory in Jogjakarta, Central Java; a housing development corporation in Djakarta (to manage the houses built with the *Rurni* capital) a hotel and tourist bureau ("Natour") in Djakarta; a majority of shares in five sugar factories in Central and East Java; one estate (tea) in West Java; and a nursery of high yielding rubber trees in Sumatra. Besides these enterprises there are a number of smaller ones in which the Bank has at least a majority of shares (*e.g.* printing, metal working, chemical etc.)

Despite its original purpose, the Bank has not, so far, acted as an investment bank, that is, a dealer in securities, since it has retained practically all of its subsidiaries. This is partly because there is no established capital market as yet. Perhaps a more basic reason is that there is yet no firm national concept as to the boundaries of private industrial enterprise. A popular view, both in political circles as well as in government circles, is that the larger-scale enterprises should be controlled by the state.

Although public control should not necessarily mean state ownership (and there are in Indonesia, a good many private enterprises of larger size, most of them foreign-owned), nevertheless this political indecision has led to the maintenance of a historical *status quo*. This policy, as is understandable, has created difficulties for the Bank in finding further sources of finance. No turnover of capital is likely, and the sources of bond financing seem to be exhausted for the present time. The *Rurni* bonds were not quite voluntarily subscribed (at least there was no better alternative for the owners of the funds), and the recent 5½ per cent interest-bearing bonds were only taken up by institution funds, postal saving bank, etc.) or had excess liquidity and were willing, for partly non-commercial reasons, to help the State Industrial Bank or, indirectly, the development of the country. Private capital owners are not very much attracted by BIN bonds because, in times of severe inflation, the rate of return of these bonds is much lower than that of direct investment, especially in trade.

Because of the foregoing factors, the main sources for the Industrial Bank for further expansion of activities will be : internal financing out of retained profits, withdrawal of the participations regarded as non-essential, liquidation of failures, and recovery of long-term credits, including interest earnings. Internal financing for other than expansion of the existing enterprises seems to be rather unlikely because profit margins are not excessive in most of these new operations.

The BIN enterprises seem to be satisfied with their present business form, which gives them, theoretically, the same managerial independence as private corporations. There is one minor handicap of the private enterprise form because, in Indonesia, a private corporation operates under the so-called European law, and is not entitled to hold land to which the Indigenous law is applicable. Hence, a corporation cannot own land or enter into an agreement (*e.g.* mortgage) with this kind of land as security. The Bank Industri Negara, because of its special charter instituted by law, is not handicapped by this regulation, and hence it occasionally can take over land titles. It did this, for instance, in the case of the land of the Gresik cement plant, which is now owned directly by the Bank Industri Negara.

Since the BIN, in practice, acts more like an industrial finance and development corporation than a bank, the problem of managerial division of labor between the Bank and its subsidiaries merits interest. The Bank often acts as innovator, financier, and manager of the subsidiaries at the same time. The innovating and financing functions of the Bank can easily be understood, and need no further discussion, but a frequent problem is the division of managerial powers between the Bank and its daughter companies. Often the Bank is fully responsible for the internal management of the enterprises, usually in the case of new enterprises. The Bank, however, does not intend to centralize management permanently. Only in the initial stages, where sufficient managerial skill and experience is not available, or cannot attract the confidence of the Bank, is management undertaken directly by the

Bank. The difficulty with this arrangement is that often the physical distance between scenes of operations (*i.e.*, operations pertaining to construction, preparation, solution of local external problems, etc.) and the directors of the Bank create obstacles in the way of quick solutions of problems that may arise. The staff of the Bank itself is still inadequate, in numbers and experience, to handle the multitude of preparatory and promotional problems of its new subsidiaries. On the whole, however, this need for centralization in the initial stages of the enterprises is understandable and even desirable, since it will guarantee a certain uniformity in structure, operating procedures, and even in the goals and attitudes, of the BIN subsidiaries, which are required in the context of national economic planning.

Decentralization comes with the appointment of a responsible plant manager and a board of directors. The President-Director (in large undertakings), or the General Manager, is appointed by the Bank, but the executives and the rank and file are appointed at the discretion of management, with the approval of the board of directors. The board of directors is also an important instrument of decentralization. Members of such a board can be selected for several purposes. In private companies, the board of directors usually represent the shareholders and acts in their interest. The board of directors of public corporations is concerned with public and social control in a broader sense, and does not represent the direct interests of the shareholders of the company, as for instance in our case, the BIN. The boards of directors of these public enterprises represent various sectional interests concerned with national policy. For instance, one member of the board is a representative of the Industrial Bank, a second is responsible for coordination with the agency of the central government with whose policies the operation of the enterprise has to be in line, a member has to care for the financial relations, while a fourth member is selected for the purpose of a relationship with local authorities. Hence, such a board may consist of an employee of the Bank, an official of the Ministry of Industries, a director of a local (state) bank, a prominent local authority, etc. The chairman is elected by the board itself, and need not be the representative of the BIN.

If the corporation has gained some maturity then the role of the BIN becomes more and more limited to that of providing long term capital and the Bank has a vital say only in problems of expansion.

THE TAKEN-OVER (FORMERLY NETHERLANDS-OWNED) ENTERPRISES

This is a very important category in terms of number and size, but, at present, not much of a permanent nature can be said about the operation of these enterprises. The enterprises are divided into four major categories, each co-ordinated by a managing board. The manufacturing enterprises and the mining plants are controlled by BAPPIT, a managing board consisting of high officials of the Ministry of Industry and representatives of the army. The commercial enterprises are administered by the B.U.D., also a managing board consisting of high officials of the Ministry of Trade and army officers. The agricultural enterprises are controlled by the PPN-Baru (about 400 units), whose managing board consists of officials from PPN-Lama (the original Agricultural State Enterprise) and the Ministry of Agri culture, and officers of the army. The pharmaceutical enterprises, both manufacturing and distributional, are administered by BAPPHAR, a managing board staffed with officials of the Ministry of Health and army officers. The ubiquitous role of the army is a reflection of the state of war and siege, and recent political developments in Indonesia, which emphasize the role of the army in politics and public administration.

The business form of the unit enterprises has not yet been finally determined, but many of these enterprises are provisionally incorporated as private corporations, of which all shares are held by the managing boards.

The internal operational policies of the enterprises are held as intact as possible, given the exclusion of most of the Netherlands personnel.

These enterprises have a multitude of transitionary problems : financial (because they are cut off from their former main sources of financing, *i.e.*, the mother enterprises abroad); marketing (same character); organizational (division of responsibility and authority between the old personnel in new executive positions, the officials from the ministries, the representatives of the army, etc. is not clear); administrative (extent of centralized policies of the managing boards, etc.), etc. These difficulties, however, are mainly but a reflection of the still-unsettled political situation. The lack of clarity at present surrounding the ideas of guided economy and guided democracy also adds to the uncertainty. The situation is still too fluid to warrant a detailed exploration of the problems of the taken-over enterprises or to attempt to predict the final form of ownership, organization, and operation which these enterprises may take.

THE I.C.W. ENTERPRISES

Several ministries have industrial establishments which are run as ordinary government departmental agencies, subject to the I.C.W. (Indische Comptabiliteits Wet—law on accounting procedures of the Netherlands East Indian administration) regulations. For instance, the Ministry of Health has a pharmaceutical factory supplying state hospitals and clinics with drugs and injection vials, the Ministry of Defence operates an arsenal plant; the Ministry of Information has several printing shops in small outlying cities.

Usually these enterprises are of a non-commercial character, *i.e.* they do not produce for the market, and the scale of operation is not large (with the exception of the arsenal plant).

The ICW enterprises have no financial independence. All expenditures have to be met out of budget appropriations, while all income must be transferred to the Treasury. Income cannot be used as working capital. Pricing and distribution are usually regulated by the ministerial department and pricing is often not based on a full cost principle. Revenues are sometimes collected by a higher division of the department, which means that even the pricing may be irrelevant for the enterprise in question.

The financial arrangement that income cannot be used as working capital and that all expenditures have to be budgeted for is a frequent handicap for efficient operation. Sometimes it happens that financial responsibility is separated from managerial responsibility when financial responsibility rests with a so-called "accountable official", who is not the manager of the enterprise. The two persons need not even be working at the same place.

Efficiency in such enterprises is usually low, because plant capacity is almost never fully used. There is no drive for better performance because efficiency is not measured in terms of profit and loss. It is enough if these establishments can turn out the orders that are assigned to them by other departments.

Many industrial establishments, usually those under the Ministry of Industry, which originally operated under the ICW regulations, have tried to break away from these governmental rigidities which do not facilitate market operations. A common solution is that they incorporate themselves as public foundations. Although final accounting often still has to be presented according to the ICW rules, there is nevertheless more managerial discretion under this enterprise form. One of the important aims in setting up such a separate body is to be free from governmental regulations with respect to personnel administration and pay scales. In this way, better-qualified personnel can be attracted. There is also more freedom for marketing and supplying policies, while it is possible to arrange for part of the income (up to a certain amount) to be used for expenditures.

The foundations are managed either by government employees (on loan) or by personnel hired by the foundation. A board of supervisors consisting of ministerial department heads usually controls the foundation. A good example of this foundation-type of solution is the so-called LP31,

which is managing board for the multitude of so-called Central Workshops in Indonesia. A Central Workshop is a factory operation in a rural or semi-rural area, amidst native homecraft industries. The purpose is to assist the small and indigenous workshops with preparatory and/or finishing operations, which can be more efficiently done as a large-scale factory operation. Because the social-economic purposes (*i.e.*, development of rural industries) are more important than the commercial purposes (*e.g.* the marketing of the products), this public foundation business form is more suitable than the private corporation form. Being still an ICW operation, the budget for the project can still be seen in the State budget.

PART II

OPERATION PROBLEMS

ENTERPRISE OBJECTIVES

Purpose of price policies. Most public enterprises do not have the ordinary, *i. e.* capitalistic, objective of making the most profit, however interpreted. Although many private enterprises today will deny this egocentric purpose, and state that they are concerned about the welfare of the workers, as well as the welfare of the consumers, nevertheless a public enterprise is often more restricted to specific, non-commercial, purposes than are private firms.

In Indonesia, the objectives of public enterprises cover a wide range, depending on the market, the nature of the goods or services turned out, the national economic plan, etc. For instance, public enterprises working for export will usually have the same commercial aim as private enterprises. For public utilities or vital industries of government ownership price policies may not be directed to earn a profit. In times of inflation or deflation, price policies of public industrial enterprises are also not always conducted solely with a profit motive, but may be used to counteract the monetary trend.

We shall not discuss in detail the pricing policies of public utilities and public enterprises working for export, because for public utilities prices are often regulated with a non-commercial aspect, at times even with a political aspect (*e.g.*, railway rates in Indonesia), while for export industries usually there is the conventional profit motive controlling pricing policies. What is of more interest is the pricing of domestically consumed products of public industrial enterprises. In Indonesia, the enterprises themselves often do not have much discretion, because prices of many goods are regulated by a price control administration run by the Ministry of Trade. The aim of this price control is anti-inflationary. Even so, there is the conceptual problem as to whether public industrial enterprises should make a profit or not. At the moment, no agreement on this question has been reached in Indonesia, the official opinion still being that public enterprises (in general) should not be primarily concerned with making a profit, but should, instead, contribute to the welfare of the people. Of course, this last statement is ambiguous, and basically cannot solve the problem of social desirability or undesirability of public profits. If to raise the welfare of the people an increase of production is required, the problem remains as to how to finance an increase in production. It is a traditional practice that the best source of financing expansion of production capacity is the company's profits which are ploughed back. Hence, commercial profits can have a social purpose for expanding a country's industrial capacity. Although, if so desired, expansion of productive capacity can also be financed by public loans or subscriptions from the Treasury, there is always an opportunity cost problem involved, in the sense that these funds might better be used for setting up new projects.

If a nation, especially an under-developed or low-income nation, is determined to engage in an all-out development effort, it may want to tap all possible resources to finance expansion of capacity. It may not want to

rely on fiscal and public loan sources alone, but may want to acquire funds through the price mechanism as well. Price policies of public enterprises may therefore serve as a complement to the fiscal system to collect additional savings from the public. This idea might be well worth pondering in underdeveloped countries, such as Indonesia, where tax collecting is not an easy task, and too high direct taxation may inhibit production incentives.

Labour and community welfare. There is another aspect of the socialized goals of public industrial enterprises in Indonesia that merits discussion. This concerns labour welfare and the welfare of the community in which these enterprises are working. Many BIN enterprises, especially the older ones, have an excess of labour, but even a new plant, such as the Gresik cement plant, is somewhat over-supplied with workers. This happens for two reasons. First, because the dismissal of excess labour is not regarded as socially desirable, as the society will be burdened with the cost of maintaining these unproductive people. Unemployment will also damage the morale of these people with probable ill effects upon the community in which they have to be absorbed. In other words, public enterprises have to share in social responsibility for workers' welfare in the broadest sense of the word. The solution is that public enterprises, instead of firing these workers and consolidating their operation at manageable proportions, should expand or reorganize, and find productive employment for these men.

Training purposes. This brings us to the second reason why excess personnel are retained, when at all possible. These men are being trained (or held in training) for other jobs which will become available when new industrial projects are initiated or when existing capacities are expanded.

To cite an example, the cement plant in Gresik employs about twice the number of engineers and technicians compared with a similar plant in an advanced country. This abundance, however, is, under the circumstances, not a direct social waste, because this excess personnel can be regarded as trainees on the job, waiting for the construction of a new cement plant, or for the expansion of the existing installation. Hence, state industrial plants can sometimes be regarded as large training institutions for future industrial cadres. It is in this respect that cost increasing effects have to be deflected in evaluating the efficiency of such enterprises.

A drawback of this theory of social purpose in excess personnel and labour is that, especially for the labour group, the waiting for productive jobs is too long, and that often trade union practices and cultural inertia block the geographical mobility of these workers. In other words, these excess labourers cannot be employed in another region, and therefore their usefulness is limited. An example of this is the recently liquidated foundry and construction shop in Jogjakarta and the cigar factory in the same town. These were old factories established long before the war. The BIN has taken them over mainly for social reasons, *i.e.*, to take care of the region's depressed industries and try to do something about them. The main source of depression in the old industrial establishments was the decline of the market. The construction shop was a service industry to the once booming sugar industry, which was largely destroyed during the war and post-war hostilities. Today, virtually no sugar factory is left to make use of its services. The switch to manufacturing of ironware seemed to be unprofitable, because existing equipment and machines were only partly useful for this purpose and a large bulk of idle capacity would have still remained, complete with excess personnel. Management, apart from a general inaptitude, was also severely handicapped by this problem of surplus workers. Finally, the BIN liquidated the plant, which gave the caretakers (*i.e.* the local government) a legal opportunity to lay off the workers and start anew; although nobody knows yet in which direction, since the basic problem of being a desolated and depressed industry still remains. The cigar factory in the same town is also struggling with a problem of excess labour and declining markets, while management is not free to reorganize the enterprise drastically.

Pilot or experimental purposes. Another aspect of the social goal of public industrial enterprises that may affect their commercial success is that several of these enterprises are pilot or experimental projects. For instance, the rami project and the agar-agar project of the BIN were set up for these purposes and, so far, these projects still have to be classified as losing propositions.

Innovating or pioneering purposes. Finally, public projects can be set up as an innovating or a pioneering deed, breaking into a field which so far has been shunned by private entrepreneurs. The soybean milk project could probably be classified under this category, as well as the projected urea fertilizer plant, since farmers and estates have not been used to this relatively new product. It is contended that only the Government is able to bear such a risk.

PUBLIC AND SOCIAL CONTROL

A basic problem in the management of public enterprises is the structure and form of public and social control. A public enterprise can be set up as a private corporation and the management can be given, or can gain, so much independence that, in practice, not much is left for public supervision, and the enterprise has become a small independent empire itself. There are successful companies in Indonesia, of which a government agency is sole stockholder, whose managerial staff often forgets in its daily work (and sometimes even tends to deny it), that theirs is a state enterprise. Although such a course of development will ordinarily not be detrimental to the interest of the country (the company being a profitable one), yet it is contrary to the original purpose in founding the corporation.

Public control covers various aspects of the company's activity. It touches production, pricing, personnel administration, marketing, direction of investment, labour welfare, etc. Although management has to have enough managerial powers to be responsible for smooth operation, all public enterprises have to be subject to certain binding regulations that guarantee that the original purposes of public enterprises will not be evaded and replaced by a more private profit motive of the executive officers.

The ultimate seat of public control is Parliament. Hence, all channels of public control of state enterprises, which after all use public money, have to lead to parliamentary supervision. The systems of control will differ only in the channels, but it is very important that these particular channels should not hamper the normal functioning of managerial responsibilities, not the least of which is to keep the enterprise intact or to survive market upheavals.

In practice, it is important that not only does Parliament exercise public control over the state enterprises (after all, Parliament, as a political body, will be concerned only with broad outlines), but also that proper branches of the administration be concerned with outlining and supervising specific aspects of public policy with regard to industrial development in general.

The IBW-enterprises are directed by managing directors, often government officials, although not necessarily so. All IBW-enterprises are under the supervision of a cabinet minister. For example, the State Agricultural Enterprises are supervised by the Minister of Agriculture. Production, planning, marketing, and pricing are often under such direct supervision, although in practice the top management often has the initiative. The principle is, however, that the Minister co-ordinates the policy of the enterprises with the national policy. Hence in times of a firm governmental policy, the hand of the Minister is likely to be felt more heavily than when such firmness does not exist. These IBW-enterprises, however, depend heavily on the Minister of Finance (in practice often the Treasurer General or the Inspector of the IBW-enterprises) for their financial requirements. In other words, the Ministry of Finance controls the budget almost completely.

In theory, Parliament has a direct channel of control over IBW-enterprises, because their budgets appear in the annual State Budget. In practice, however, it is the administration, especially the Treasury, which exercises the control. We will see that, for many IBW-enterprises, this financial control is stifling, because enterprise objectives are often sacrificed to Treasury objectives, such as the tightening of the budget. For many IBW-enterprises this financial control of the Ministry of Finance is felt much more strongly than is the administrative control exercised by the cabinet ministers.

The BIN-enterprises are rather remotely subject to parliamentary control. Of course, their financial statements are public documents (so far only in theory, because they are not easily, nor in time, available), and this is a possible instrument of control. But since financial statements do not always reveal much about internal efficiency, it is only through official channels of control that real supervision can be exercised. The board of directors has a crucial role in this aspect. However, since the members of the board are selected more for the purpose of external relations and co-ordination of policies, not much room is left for direct public control over internal efficiency, unless some issue becomes spectacular and catches the fancy of members of Parliament. For instance, rumours once went around that there had been a large number of accidents in the Gresik cement plant; apparently alarmed, a member of parliament raised questions about it and demanded full investigation.

Final control over the efficiency of the BIN subsidiaries, of course, rests with the BIN as an ownership right. It exercises this control through an annual audit done by its own staff or a private accounting firm, depending upon convenience.

The BIN itself is publicly controlled through its board of supervisors, at present consisting of three members, one of whom handles the relationship with the Minister of Finance, one that with the Minister of Industry, and one that with the Bank of Indonesia. The importance of the last is that the Governor of the Bank of Indonesia is a member of the Monetary Council, a top decision-making body on monetary and financial affairs, including the allocation of foreign currency. The members of the board of supervisors of the BIN are appointed by the President upon the recommendation of the Minister of Finance. For this, as well as for other reasons, the Minister of Finance is the focus of governmental control over the BIN. The Bank's accounts are audited by the State Accounting Service, an agency of the Ministry of Finance, which has to control institutions which are financed from the Treasury (*e.g.*, the IBW-enterprises, the state banks, certain foundations, etc.).

Other aspects of government control and regulation concerning production, pricing, purchasing, etc., are exercised by other ministries (*e.g.* Ministry of Trade : price control; Ministry of Industry : imports, etc.); These regulations or controls, however, concern all industrial establishments in the country, and state enterprises are no exception. The State Agricultural Enterprises, for instance, are directly supervised by the Minister of Agriculture, but they are subject to the same general regulations of the several departments of the Ministry of Agriculture as are private estates, *e.g.* with respect to the allocation and ordering of fertilizers.

PRICING AND MARKETING

The state enterprises working for export were not, at first, restricted in their price and marketing policies by their special status, but recently there has been a preference for using other government enterprises as marketing agencies. The Central Trading Company, a general importer and exporter and a state-owned enterprise (the State Commercial Bank, Bank Negara Indonesia, is the sole stockholder) was recently entrusted with the foreign marketing of the State Agricultural Enterprises, although this company at present is not the sole outlet for the commodities. In the future, this

trend of monopolization of marketing channels by state marketing agencies may very well increase. The BIN subsidiaries are under an obligation to sell their products and to purchase their supplies through the USINDO, a marketing and supplying agency set up as a BIN subsidiary in 1955, but which was not active until 1957. USINDO still does not possess the required skill and experience in the marketing and procurement problems of the large variety of goods produced or required by the BIN subsidiaries.

This buying and selling monopoly of the USINDO has, at times, created inter-company friction, because psychological obstacles (feelings of pride, prestige, etc.) stood in the way of co-ordination between the producing party and the selling or supplying party. For the commodities sold in the domestic markets there is frequently no major sales problem because there is a seller's market, due to swollen effective demand due to inflation. The market for cement and yarn is a striking example. On the other hand, the physical act of distributing goods is often hampered by poor transportation facilities, inadequate local storage facilities, and some times also by lack of financing. It is understandable that, under these conditions, some producing establishments of the BIN are eager to do their own marketing, at least part of it, as, for instance, local marketing. In a seller's market, producer and distributor can easily quarrel about the distributor's margins, especially when the producer has no other alternative as to the marketing outlet he prefers.

Other products of the BIN subsidiaries face stiff competition from domestic as well as from foreign source. This is the case, for instance, with automobile tires, hardboard, cigars, and bottles, while soybean milk has to compete with powdered milk.* In some cases, lack of experience in planning and market surveys have led to the aggravation of marketing problems. Powerful promotional campaigns are still lacking where they are necessary. This is probably due to lack of experience, imagination and conviction. An aggressive selling effort requires a different temperament in the sales executives than is usually shown by one-time public officials. A frequent easy way out of these marketing problems is to let government organizations (*e.g.* armed forces, police, civil agencies) purchase and consume the goods turned out by the state enterprises. By this policy, a market is secured and gives both producing and marketing agencies time in which to gain experience and increase operating efficiency. This marketing outlet, however, is not available for all products of all state enterprises. It is available for the State Printing Shop, partly for the tire factory, partly for the soybean milk factory, for the cement factory, but all still have to look for private customers for a part of their sales.

Another aid in marketing the output of state enterprises is the creation of scarcity by import restrictions. This is a policy currently applied for protecting not only state enterprises but also private domestic enterprises as well.

Pricing is an important aspect of marketing policies. Most prices of so-called essential goods, however, are controlled by the Ministry of Trade, and therefore the producing or selling agency has not much discretion over them. For instance, the prices of Gresik cement are administratively controlled. Other prices, on the other hand, such as for yarn, bottles, hardboard, etc. are left free, probably because of incidental reasons. But even with the controlled prices, revision is always possible with consent of the price control administration. For instance, the price of Gresik cement has been raised upon the request of USINDO for the purpose of siphoning off consumer purchasing power as well as collecting additional capital for expansion and improvement of facilities.

In cases where there is some freedom in setting prices (*e.g.* in an inflationary situation and in a seller's market) the social problem is whether to

*At the time of writing, due to foreign currency scarcity which had created an absolute scarcity of goods, these competitive difficulties were much less, or practically non-existent.

fix prices near costs, and so create excess demand, or to fix prices according to demand and gain excess profits. There are two arguments against the latter. First, the earlier-mentioned argument that the purpose of a state enterprise is not solely to make a profit, that profits are tolerable only for planned and reasonable expansion of capacity. Secondly, the argument that, if state enterprises try to adjust prices to demand in times of severe inflation, they will succeed only in feeding the inflationary spiral and such a policy is socially ruinous. The second argument, in particular, has many supporters among politicians and in Parliament, and many efforts to adjust prices of essential goods and services, such as of gasoline, import rice, and rail transportation, to more reasonable levels (or even to wipe out losses) have been abortive, because of public resentment and political protests.

FINANCING

The problem of financing is, for almost all IBW enterprises, a source of constant despair, while the Bank Industri Negara is already complaining of lack of financial resources.

As mentioned earlier, the IBW enterprises have to remit to the Treasury two major budget items : their depreciation allowances and their profits. Hence, they have no funds directly at their disposal for replacement and expansion. For these purposes, they have to submit a separate budget, called the capital budget, in which they list all requirements for non-recurrent expenditures. Under the present circumstances of chronic and severe budget it is usually these items that are severely curtailed by Treasury.

It is especially this aspect of the IBW enterprises that, under present circumstances, proves so detrimental to their stability and efficiency. Because the present major concern of the Treasury is to reduce budget deficits where politically feasible, namely, least in the consumption sector, it is capital expenditures, even for urgently needed enterprises, that have to bear the brunt. Public control of expenditures of state enterprises by the Treasury may have worked well in the days before the war when inflation was never a problem (often even the reverse), but after the war, with the changed structure of the economy and the changed role of monetary and budget policy, this complete financial dependence of the state enterprises on the Treasury may have hurt more than the public benefits yielded by the controls.

The uncertainty and the annual difficulties which arise in the financing of IBW enterprise operations make it almost impossible to engage in serious long-run planning. An attempt at planning is made by listing requirements annually in the budget, but instead of putting real figures into the entries, budget amounts are labelled as "*pro memoria*".

IBW enterprises are not in a position to attract public loans in the form of debentures, a way of financing possible for public utility enterprises in other countries. Of course, indirectly, the Treasury can issue public bonds for the financing of these enterprises, but under present circumstances this is not very likely to happen, because if the Treasury ever succeeds in raising funds in this way (as it is trying to do at this present time), the chances are that it will have another use for the money. The concern of the Treasury is not so much productive as contractive!

The possibilities of foreign loans for financing rehabilitation or expansion of IBW enterprises are more real. The railways have received foreign capital assistance from the Export-Import Bank for the purchase of equipment, while the port authorities are shortly to benefit from a loan from the Development Loan Fund. Of course, in all these cases the Government, and not the enterprises, is a party to the loan agreement.

The BIN enterprises have their own financial worries. Not all these worries are equally serious, since most of the enterprises are still in their infancy and hence have, as yet, no serious problems of replacement and expansion. A frequent problem is that of raising enough working capital.

Although this is not always a serious problem it ties in with the problem of inter-company financing. The latter is a more general difficulty among the BIN enterprises. The banking section of the BIN is not yet properly developed, and therefore a "pooling system" of finances is at present feasible only to a limited exent. It is the plan of the Bank, however, to use excess liquidity of one enterprise for financing (if only for short-run needs) other sister enterprises. There are still substantial leakages in these funds at the present time because the BIN enterprises have their current accounts in other (local) banks. The BIN has branches in Semarang, Surabaya, Medan and Padang, and one in Makasar is contemplated.

An intercompany problem of short-run financing is found in the financing of sales. Partly because of shortage of working capital of USINDO, and partly because of commercial custom, the producing firms extend distributor credit to USINDO. Quite often these producing firms also have to grant advances to supplying firms. These credits in two directions can be straining at times for some of the larger firms (such as the cement plant), since their total working capital is also limited and has to be turned over rather quickly. Although this problem is interesting, it has never yet become so serious that it has affected the continuity of operation. The point is that, among the new BIN enterprises, many problems are felt more sensitively, because the pattern of co-operation and co-ordination is not yet well established.

The financing problem of the BIN enterprises is, in principle, certainly easier than that of IBW enterprises, the latter being of the private corporation form that can always take in private capital. Another possible opportunity in the future is the attraction of local government into participation. Possibly in a more distant future, co-operatives will also be able to invest their savings in these public industrial enterprises. With government guarantees, perhaps even pension funds and other financial institutions of similar nature can try to safeguard the real value of their holdings by means of participation in public industrial enterprises, rather than see their assets declining in real value because of continuing inflation.

SUPPLIES

The problem of raw materials and supplies of production goods and spare parts is currently the paramount problem in the operation of all industrial enterprises, no matter whether they are state owned or not. Severe foreign currency shortages, which became really acute in 1958 and are not yet over, made it necessary for the Government to adopt a priority scheme. Usually it is not the productive interest, but consumption interest, such as the importation of rice and textiles that receives top priority. For the three productive categories, capital goods, spare parts, and raw materials, there is a scramble as to who should get how much. Even now, it is still undecided what should be more important, the category of capital goods and spare parts, or the category of raw materials. Hence, public policy in this respect is somewhat erratic.

In what respect are state enterprises particularly handicapped (or alternatively perhaps even favoured) in this scramble for supplies? The management of most state enterprises denies that it ever receives preferential treatment from the Bureau of Trade Affairs (Biro Urusan Dagang) for their foreign currency applications. Another handicap, felt by IBW enterprises, is in the budgetary appropriations for these procurements. A more basic limitation is that management of state enterprises is often not flexible enough (or could not be otherwise because of existing administrative limitations) to make use of every passing opportunity to make acquisitions. Because of import difficulties, the availability of these supplies cannot be counted upon in a regular way, but in the local market (out of general imports) supplies are offered, sometimes in an infrequent manner and often at higher (if not exhorbitant) prices. The alternative for many industrial and service enterprises is either to buy at these high prices or, in all probability, to have to do

without. For private enterprises, these alternatives can be solved rather easily on the basis of opportunity cost considerations, while usually these enterprises are not so restricted by bureaucratic regulations in regard to proper procurement procedures. On the other hand, government enterprises usually have no great excess liquidity at hand, while IBW enterprises most often still have to fight for the actual disbursement of their appropriations. Under such constraining circumstances, it happens quite often that IBW enterprises have to wait several years before they get needed supplies. For the larger enterprises, such as the railways and the cement plant, the Government at times has to resort to foreign credits to finance the requirements for spare parts, equipment, and some supplies.

It is not always the case that state enterprises are ill-stocked with production supplies and that private companies are better off. It is reported that many Netherlands estates willingly ran down their equipment and stocks because their business attitude was affected by contemplated liquidation and retrenchment. In this context, the state enterprises, *i.e.*, the State Agricultural Enterprises, at least, were aware of future needs, and tried to do something about them within existing possibilities. For instance, replanting of rubber trees was more frequently done in the state enterprises than in the (Netherlands) private estates.

State enterprises, especially the large-scale ones, frequently face problems in the procurement of raw materials. For instance, a government enterprise has to buy rubber from the local market at rates higher than the export price. Some private companies, notably the bigger ones, however, have their own rubber estates, and, by this backward integration, they are assured of a steady flow of the raw material. Backward integration of large industrial undertakings, is, in under-developed countries, frequently a real advantage, sometimes even a necessity. Too much dependence upon local, often small-scale, suppliers is often a hazard to continuous operation of the factory while uniformity of quality of raw materials is frequently lacking. Some commodity markets, such as for rubber, are frequently upset by speculative activities, which can result in domestic prices higher than those prevailing in foreign markets. This speculation is a reflection of the severity of inflation and the resulting trend of capital flight. The state industrial enterprises, however, are usually still too young to think of backward integration to secure their raw materials. Such an extension of operations also requires additional capital and more managerial talent, both of which are still scarce. Large enterprises without backward integration try to secure their flow of raw materials by granting advances to small suppliers. For instance, procurement of tobacco for the large cigarette factories is conducted this way. Without this system of advanced buying either procurement prices will be considerably higher or a steady flow of raw material will not be forthcoming. Of course all these operations require larger working capital, in which respect state enterprises are usually at a handicap.

Morever, the system of tying down small holders or small suppliers with advance money is considered amoral and exploitative.

PERSONNEL AND LABOUR

There is a difference in managerial powers concerning personnel administration among the state enterprises with different structures. Most IBW enterprises are tied to the government personnel regulations, and in these enterprises, employment, promotions, retirements, and discharges are regulated by, or require the approval of, the Bureau of Personnel Affairs, a central governmental agency. Frequently government employees of the various ministries are loaned out to these IBW enterprises. Hence, a good part of the executive personnel in these enterprises has a somewhat narrow bureaucratic attitude and outlook.

Personnel in the BIN subsidiaries are hired and fired more on a business basis. A not quite verified public complaint against the selection and promotion of top executive personnel in the new BIN enterprises is that

sometimes political favouritism prevails over strictly technical considerations. Undoubtedly some appointments have been made with an eye to political affiliation. To some extent this is explainable by the fact that, in Indonesia today, there is not yet a wide choice of managerial resources available, so that in such a limited selection the aspect of personal relation and personal confidence is bound to play some role in the selection of key personnel. In another respect, private companies in the lesser developed countries are also known for their preference for family relations in executive positions. On the other hand, there are no serious complaints of political appointments for technical staff personnel, engineering positions and middle-echelon line personnel.

Sometimes it is also deemed necessary to appoint a political figure to the so-called President-Directorship of new and large-scale enterprises, in the sense that it is their function to take care of the external relations which are so crucial in the initial stages of a new enterprise. In these stages, problems of land acquisition, labour recruitment, formation of co-operative labour relations, dealings with the local authorities and central government agencies, establishment of internal discipline (which often requires a well-established leadership), etc. are all vital problems which mere technicians are not likely to handle successfully. In short, in a country where high-power managerial resources are still scarce, and where social and external relationships are so important for the smooth running of a large enterprise, leadership is split into two : the President-Director having the overall responsibility, but acting primarily as an external liaison man, and the General Manager being more responsible for internal affairs.

It is perhaps worth while to mention that the older (*i.e.* IBW) state enterprises do not have this problem of executives with a political background. This is probably because of the force of history. Being old enterprises, relationships, both external and internal, are established. Besides, almost all top executives of these IBW enterprises are government officials, or government officials on loan.

Recruitment of young technical personnel for state enterprises is often handicapped because of the inferior pay scale. Although the BIN enterprises have a higher pay scale than the government service, this pay scale is lower than the regular rates of private enterprises, especially of foreign ones. For IBW enterprises, a major source of recruitment is the graduates who have studied on a government fellowship and are now obliged to serve with the Government. A government regulation under consideration would make public service for a number of years compulsory for all graduates of state universities. At present, only medical doctors are under such obligation. However, this regulation, as well as the present obligatory service for government fellowship holders, has its drawback for the state enterprises. The young graduates are usually still inexperienced, and have only a limited usefulness in the first couple of years, but after they have fulfilled their compulsory service they are so experienced that private enterprise tempts them successfully with much higher salaries. In many instances, only idealism and moral satisfaction in their present work prevent a disastrous outflow of young talent from the state agencies.

Labour relations in Indonesia often have a pronounced political character. Attitudes towards management and sensitivity of reactions, as these matters affect labour peace, are often motivated by political considerations. If the Government in power is supported by the respective labour movements, then labour relations to that extent are peaceful, although inflation might hurt real wages constantly. Parallel to this tendency there is, in general, always a more appreciative attitude of labour towards management in state enterprises compared with relationships in private enterprise. In the latter category again labour is more conciliatory in national industries rather than in foreign ones. A striking example was offered in the difficult conditions following the severance of relations with the Netherlands, and the outbreak of rebellion in the outer islands, when ravaging inflation

coupled with real physical shortages seriously affected living conditions, especially those of the workers and other fixed wage earners. At these times, there were no strikes and labour disputes occured only sporadically. Labour in the taken-over Netherlands enterprises was quite co-operative and appreciative of the difficulties of management and government.

TRAINING

A basic internal deficiency of almost all state enterprises is the lack of qualified personnel in all fields, technical, administrative, and managerial. The extent of government operations in industry, trade and services is expanding more rapidly than the training facilities presently can satisfy; consequently, frantic efforts are currently being made to meet the demand. This has been especially so since December 1957, when all Netherlands enterprises were taken over, mostly without the benefit of the services of the Netherlands personnel. Before the date, most state enterprises already had undertaken training schemes, but these were limited to technical training and on-the-job training of executives and middle management personnel. In the meantime, the need for increased managerial training was always recognized. The Baguio (Philippines) Advanced Management Programme, held each summer under the auspices of the Harvard Business School and the Ford Foundation, has been attended by Indonesian executives and educational officers for three years now, and about thirty people with this kind of experience occupy strategic positions. They have contributed greatly to the popularity of management training programmes, and hence have aided in breaking the ground for more extensive training programmes at home. Under the auspices of the ICA, as well as private foreign institutions, numerous people have had the opportunity to travel abroad, mostly in the United States, to observe modern management performance and attend business schools. Several of these trainees have returned with a Master's degree in business administration. The Ministry of Industry has recently set up an academy (three years' curriculum after secondary school) for industrial management, inspired by Course XV of the Massachusetts Institute of Technology, School of Industrial Management, which combines an engineering college with management training. The main institution for higher learning for business administration and accountancy is the Faculty of Economics of the University of Indonesia which, in its eight years' history, has produced only 60 economists, 55 business administrators, and 5 accountants (as at June 1959). Other major universities now also have departments of business administration, but, because of their brief existence, their output is also still negligible.

To meet immediate demand, short-term management training programmes are being undertaken in major cities such as Djakarta, Bandung, and Surabaya. Participants are executives of the newly-taken-over enterprises. The Faculty of Economics of the University of Indonesia contemplates running an advanced management training programme similar to that at Baguio in 1960, for which foreign financing is required to recruit part of the faculty from abroad. The ICA and the Ford Foundation are reported to be interested in supporting this programme.

The newly erected Institute of Public Administration, a high-level government institute in Djakarta, is currently also very active in organizing seminars and other training schemes for managers and administrators of government agencies and enterprises, such as the IBW enterprises.*

A frequent problem in the operation of new and large-scale state industrial enterprises is the initial staffing. This has been solved by sending young engineers and other technical personnel to the country from which the factory will be (or is) contracted, before the factory is established. This happened

*For further information about managerial needs and proposed training schemes, we refer to the Timms and Caldwell (Indiana University professors, contracted by the ICA to do a survey) report appearing in the journal "Economics and Finance in Indonesia", XII, No. 2/3; Febr./May 1959.

with several BIN enterprises (cement, tire, glass) and with the new (IBW) soda factory.

Initial management, for a year or two, is sometimes contracted to a foreign firm, as was the case in the Gresik cement plant, while an Indonesian shadow administration is in training awaiting the transfer of responsibility. This has not been without difficulties, because, in some areas, the Indonesian administration has assumed responsibilities perhaps over-hastily, *e.g.*, in the administration and storage of supplies. This has created sometimes conflicts when the foreign responsible management required instant co-ordination which was, for some reason or other, lacking. Of course, it would have been administratively much simpler if the Indonesian administration had had no responsibilities at all, and all matters were in the hands of the foreign management, but such a solution was not acceptable, and hence dualism could not be avoided. But taking these understandable frictions for granted, the whole system and its operation was not so bad, and much more agreeable to the Indonesians who could take responsibility in a minimum of time.

INTERNAL EFFICIENCY

Apart from the problems discussed above, the following constitute additional obstacles to operational efficiency:

Under-utilization of capacity. This can have many causes, such as lack of raw materials, marketing difficulties, breaking-in period for machines and personnel (when stoppages frequently occur), lack of proper replacement of spare parts and maintenance of machinery, so that the balance of processes is often disrupted.

Lack of accounting personnel and services. Planning, budgeting, cost accounting, and cost control are in many state enterprises only summarily executed, because of lack of accounting personnel. Hence, for instance, proper standards of cost accounting are not commonly used as a tool for management. The State Accounting Service is so understaffed that its audits cannot be used as a basis for future budgetary planning, not to speak of external cost control of the IBW enterprises. On the other hand, severe inflation has also made serious planning and budget control virtually impossible, which again leaves the door open for incurring expenditures which are not strictly accountable.

Bureaucratic complacency. This is, of course, a classic threat to the efficiency of state enterprises. In under-developed countries trying to industrialize, this phenomenon can easily develop behind the protective barrier of partial monopoly that most of these enterprises enjoy, because of sheer scale of operation, or because of protective measures.

Managers of state owned enterprises in such countries are ambitious enough and are at the same time proud of their role in the development of the country, and therefore they want to do a good job. But this zeal is not enough to protect them from overspending. The measure of doing a good job might be interpreted as achieving the highest possible output, but probably less attention will be paid to curbing costs and preventing waste. There may also be a temptation to try to do a little too much for the welfare of the workers and spend too much for amenities for the executives. To be sure, this relative opulence of large enterprises is in Indonesia not only a feature of state-owned enterprises. Most probably these state enterprises are far less extravagant than the previous Netherlands estates and enterprises. Salary and wage scales, and executive amenities of these state enterprises are still below those of former Netherlands enterprises. But of course those enterprises should not be taken as a standard. It should not be impossible to establish common standards of costs and expenses for all state enterprises, probably supplemented by certain incentives for superior performance, and the whole system subjected to a careful control by state accounting services.

Worker morale. Worker morale is reported to be declining because of the persistent inflation which has progressively depreciated real wages. Absenteeism and lateness are frequent phenomena in state enterprises, especially in the IBW and ICW enterprises, because these two categories are hardest hit by the inflation.

PART III

SUMMARY AND CONCLUSIONS

There are several problems that we want to recapitulate in this section. *First*, there is the problem of external factors bearing on the efficiency and stability of the operations of the state enterprises. In the author's opinion this is really the most important problem today in Indonesia. The country has been suffering from a chronic and severe deficit in the government budget and a consequent disequilibrium in the balance of payments. The result is severe inflation and physical scarcity of many goods. In the background of this looms the problem of political instability, culminating in a rebellion in 1958, which only adds terribly to the strain. If inflationary financing was resorted to in order to finance certain cherished development projects, and on top of this, to finance the military operations this could be done only at a great cost. It is clear that other capital expenditures less appealing to the public mind had to be sacrificed. The IBW enterprises have suffered most because of this situation. The BIN and its subsidiaries are experiencing a squeeze in their sources of capital, because it is almost impossible to raise additional capital from public subscriptions. The inflation further adds to the difficulty of recruitment of qualified personnel, of forming sufficient stocks of raw materials and production goods, of planning and budget control. In short, inflation has been the chief enemy of the state enterprises. The only defence an enterprise can apply in such a situation, *i.e.*, to raise the prices of its products, is denied for political and moral reasons : the government cannot raise prices if it at the same time forbids wages to increase. Of course, private enterprise is generally also subject to the same price control regulation, but somehow it manages better to escape the maze of control because its management is more flexible and is more determined to keep the value of its assets unimpaired. State enterprises are usually handicapped by a stiffer attitude, and less managerial discretion. Consequently they cannot easily protect themselves in this inflationary situation.

Second is the problem of operational efficiency. Probably the most important factor in this respect is the lack of skill, administrative, technical, and managerial. This is a problem common to all under-developed countries and can only be remedied over a relatively long period of time. It is seriously recognized in Indonesia, and the country is furiously engaged in crash programmes of training and education.

A *third* problem that still needs a general solution is that of organization, co-ordination, and public control of state enterprises. We have seen the various forms of state enterprises in Indonesia. The IBW enterprise form is generally felt to be too restrictive under the present circumstances, while the private corporation form—although at present the most efficient form—is often regarded as "too individual capitalistic" (at least there is a political prejudice against this business form for state operations, probably because it is labelled as a profit-seeking body). Also the public control of these private corporation type of public enterprises is regarded as politically inefficient. On the other hand, the direct parliamentary control of the IBW enterprises has not achieved what was originally intended. Parliament has usually too little technical knowledge, and is too occupied with other issues, at budget presentation time, to really scrutinize the budgets of these IBW enterprises and to question administrative policies. Under the present circumstances of budgetary concern, this financial control only impairs the stability of the enterprises. Since inflation is likely to continue for a longer

time it is perhaps expedient to relieve these enterprises from such too-stringent a control.

Much thinking is now directed to the form of public corporation by law, in which specific regulations can be written into the law, for instance according to the type of productive activity. For instance, separate laws are perhaps needed to regulate public corporations of a public utility nature, of a manufacturing nature, of a service nature. Of course it would be cumbersome to require a separate law for each enterprise, but something in a form of a master law can probably be worked out, under which coverage the individual enterprises can be set up.

A *fourth* problem is that of co-ordination of these enterprises, and the channels of control. Is there a need for a separate Ministry for State Enterprises, or can administrative control and co-ordination be left to the various welfare ministries? In Indonesia there is already a co-ordinating committee between welfare ministries on a ministerial level (the Economic and Financial Council), while monetary and balance of payments problems are co-ordinated by the Monetary Council, also a ministerial committee.

A problem related to the above is that of regional decentralization. The problem of political decentralization is presently a very acute and at the same time a very delicate problem, and it is foreseeable that state enterprises also have to be subjected to some kind of decentralization of control. A current example is the contemplated big fertilizer plant in Palembang, South Sumatra, in which the local government has demanded a share in the stocks.*

Another problem in the same area is the problem of co-ordination with national economic planning. There are sufficient channels of co-ordination in Indonesia. The State Planning Bureau has a decisive say in the establishment of large-scale projects, such as for the cement and the fertilizer plant. The financing body is often the BIN, and therefore operational control rests with this agency. The Ministry of Industry undertakes promotional activities in the field of small-and middle-scale industries, while it controls the research laboratories. Balance between the overall national plan and the executional measures is supervised by the Prime Minister himself.

*Another problem of regionalism concerns the original selection of plant site, as between regions. There is sometimes rivalry between regions as to which should get a projected state industry, apart from locational considerations of a technical nature. Hence there is a chance that state industrial establishments are not set up in a location most suitable from the economic standpoint.

New India Press, New Delhi.

SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

INDUSTRIAL ENTERPRISES IN THE PUBLIC SECTOR[1] *IN INDIA*

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Paper No. 26

1. Prepared by the Indian Institute of Public Administration, New Delhi.

INDUSTRIAL ENTERPRISES IN THE PUBLIC SECTOR IN INDIA[1]

1. BEFORE INDEPENDENCE

Broadly speaking, it would be true to say that the approach of the British Government in India to economic policy continued to be that of laissez faire almost throughout the period of its rule. But, in spite of this basically laissez faire approach, the Government was gradually compelled by circumstances to participate directly in certain economic activities. The Government of India first tried to develop irrigation through private companies but this experiment failed disastrously.[2] Thereafter, the Government accepted the construction of irrigation works as its own responsibility. It may be pointed out that this was nothing new as even in pre-British times, wherever stable government existed, provision of irrigation and transport facilities was considered to be the responsibility of the ruler. As in the case of irrigation, the experiment of developing railways through private enterprise was tried and given up and gradually the policy of State ownership and, somewhat later, State management of railways came to be accepted.

While the necessity for a positive State policy of participation in irrigation and transport was recognised at an early stage, in the case of manufacturing industries this was not so. While as a result of the impact of the rapid increase in foreign trade and improved internal communications the traditional industries in India declined, modern industry did not develop rapidly to take their place. In other countries like Germany, United States and Japan, which started on the course of economic development later than Great Britain, special efforts were made by their governments to help industrial development, in India laissez faire continued to dominate government policy. In the last decade of the 19th century some attempts were made by a few enlightened administrators to develop a more positive policy. The provincial government of Madras sanctioned experiments in certain metal industries. This experiment was found to be successful and

---

1. Any views expressed in the paper should be taken to be the views of the author, Dr. H. K. Paranjape, who with the assistance of the Research Staff of the Institute prepared the paper on behalf of the Institute, and not necessarily the views of the Institute as such.

Because of the paucity of data about industrial enterprises under State Governments, the paper mainly deals with the problem in relation to enterprises under the Central (Union) Government. It is these latter which are really important both in view of their size and their strategic position in the economy and therefore experience relating to them can be considered as of greater significance; this is especially so as the number of enterprises under the Central Government is expanding very much faster than that under State Governments.

It needs to be mentioned that the data about different enterprises have not been equally available for the preparation of the paper. For some enterprises, up-to-date data were not available about all aspects and so some data collected in 1957-58 had to be used. It is possible that some changes may have occurred since then which have been overlooked. But the picture drawn here can be taken as correct in its main outlines.

2. D.R. Gadgil—Industrial Evolution of India, (4th ed.), p. 138.

therefore came to be emulated by other local governments. In 1905 a special Department of Commerce and Industry was set up in the Government of India and in 1907 a Government-sponsored industrial conference at Nainital came to the decision that Government should organise pioneer concerns as an effective way of helping industrial development. However, these recommendations were turned down by the Secretary of State for India (Lord Morley at that time) on the ground that Government activity should be strictly confined to industrial instruction. Later on, an attempt was made to revive the spirit of the Nainital Conference; nothing much came of it. A few Provinces like Madras and specially some Indian States like Mysore, however, went ahead and organised a few factories on an experimental basis.

As a result of the experience gained during the First World War the Government of India decided that the establishment of certain industries was necessary from the point of view of effective defence. The Industrial Commission (1916-18) made a number of suggestions for assistance to industries including one for starting government industrial undertakings. These, it envisaged, should be mainly for the purpose of pioneering or experimentation. It also laid down that only in exceptional circumstances would Government itself carry on industrial operations on a commercial scale. This would be mainly in the case of the supply of arms and ammunition. But even this recommendation, halting as it was, proved to be abortive. Government-owned industry in India was confined to factories for the production of defence material and some workshops (mainly for repairs and maintenance work and for minor manufacturing) attached to the railways and the posts and telegraphs. The situation continued to be the same in the inter-war period. It was only during the period of the Second World War that the Government of India began increasingly to recognise the necessity of helping industrialisation in the country through direct State participation in new industries. A number of schemes for post-war development were being prepared in this period and in these the role of the State was coming to be accepted as direct and positive. A statement of industrial policy issued by the Government of India in April 1945 stated that basic industries of national importance, *viz.*, Aircraft, Automobiles, Tractors, Chemicals and Dyes, Iron and Steel, Prime Movers, Transport Vehicles, Electrical Machinery, Machine Tools, Electro Chemical Industries and Non-ferrous metal industries should be nationalised if adequate private capital was not forthcoming and it was regarded as essential in the national interest to promote such industries. An attempt was made to prepare blueprints for certain schemes like a fertiliser factory, a locomotive building workshop, a telephone manufacturing workshop etc.

Meanwhile, Indian public opinion, as voiced by the major political organisation in the country, namely, the Indian National Congress, was somewhat vaguely committed to the idea of nationalisation of basic industries. A resolution had been passed in 1930 to the effect that the State shall *own or control* key industries and essential services, mineral resources, railways, waterways, shipping and other means of public transport. This left the position sufficiently open to satisfy all points of view. The election manifesto of the Congress in 1945 reiterated this formula of 'own or control'.

2. AFTER INDEPENDENCE

For some time after independence, in spite of the fact that the Government was predominantly a Congress party government, there was no clear-cut policy in regard to the role of State enterprises in the economy. Schemes which had already been launched by the previous government, like the fertiliser factory, locomotive works etc., were pursued further. The first attempt to lay down a definite long-term economic policy was made by the Economic Programme Committee of the Congress early in 1948. This Committee which had the Prime Minister as the Chairman submitted in January 1948 a programme laying down that new undertakings in defence, key public industries and also undertakings monopolistic in character should be started under public ownership and that the existing private undertakings

in this sphere should be gradually taken over after an initial period of five years, although this was to be subject to the limit of the State's resources and capacity at the time. This statement led to a slump on the stock exchange and the Government then officially announced its industrial policy in April 1948. The policy laid down that "the manufacture of arms and ammunitions, the production and control of atomic energy, and the ownership and management of railway transport should be the exclusive monopoly of the Central Government". In case of coal, iron and steel, aircraft manufacture, shipbuilding, manufacture of telegraphs, telephone and wireless apparatus and mineral oils, all new concerns were to be started by the State while existing undertakings in these fields were to be permitted to continue at least for ten years. If and when the Government decided to take over any concern, compensation was to be awarded on a fair and equitable basis.

The First Five Year Plan for the country was formulated in 1950-51 and the above-mentioned policy continued to be the basis of the industrial part of the plan. But during the course of the execution of the plan, the policy came to be gradually modified in certain directions. A memorandum on industrial policy issued in 1953 pointed out that while certain fields were reserved to the private sector and certain to the public sector this did not prevent the possibility of a certain degree of overlapping. There was a shift in ideological emphasis after 1953 which ultimately led to the acceptance by the Congress Party of a socialist pattern of society as the goal of economic policy and this naturally meant that further emphasis came to be placed on state enterprises. The change in Government's approach is indicated by the history of the proposal for a new steel plant at Durgapur with British collaboration. At one stage it seemed that the Government was seriously thinking of allowing this plant to develop as a private concern but with the shift in policy it was decided to develop it as an entirely state-owned concern. The emphasis on state enterprises was supported on a number of grounds. It was said that, in the case of industries where for technological reasons the number of plants is bound to be small, state enterprise is proper to prevent the concentration of economic and industrial power in private hands. Another reason for further expansion of the scope of the public sector was stated to be that with the increasing role of the State in economic development it becomes necessary to ensure "widening and deepening of all possible channels of public savings".[1]

The present policy in this respect is laid down by the Industrial Policy Resolution issued on April 30, 1956. This resolution points out that it is necessary to speed up industrialisation and in particular to develop public sector industries for the purpose of accelerating economic growth, and for this purpose the State is compelled to assume a predominant and direct responsibility for setting up new industrial undertakings. "The adoption of the socialist pattern of society as the national objective as well as need for planned and rapid development require that all industries of basic and strategic importance or in the nature of public utility services should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in present circumstances, could provide have also to be in the public sector". Industries were classified into three categories having regard to the part which the State would play in each of them.

Category I : This consists of industries the future development of which will be the exclusive responsibility of the State. All new units in these industries will be set up only by the State. This course does not preclude the expansion of existing private units or the possibility of the State securing the cooperation of private enterprise. This category includes industries like arms and ammunition and defence equipment, iron and steel, heavy castings and forgings, heavy electrical plants, coal, mineral oils, important metals, aircraft, shipbuilding etc.

1. From a broadcast by the then Minister of Finance, Government of India; see India News 28.1.56.

NOTES

Category II : This consists of industries which will be progressively state-owned and in which the State will therefore generally take the initiative specially in developing new undertakings but in which private enterprise will also be expected to supplement the State effort. This category includes machine tools, ferro alloys, antibiotics and other essential drugs, fertilisers etc.

Category III: This includes all the remaining industries whose future development generally will be left to the private sector. It was specifically mentioned that these categories would inevitably overlap to some extent and no rigidity was intended. It was specifically laid down that it was always open to the State to undertake any type of industrial production.

This policy has provided the basis for deciding the scope of State enterprise in the recent period. A more important factor which determined this scope was the general character of the Second Five Year Plan. Unlike the First Five Year Plan, the Second Five Year Plan placed considerable emphasis on rapid industrialisation and this indicated the necessity of priority being given to the development of certain basic industries. In addition to the ideological reasons mentioned above, the other important factors were that the large amounts of capital required for the new enterprises under the plan could only be provided by the Government, large-scale and wide-spread collaboration with foreign firms or governments was essential and this could be obtained with greater ease by the Government and the new industries that were to be set up were not expected to be profitable within a short period. Therefore development of basic industries under the plan had to be largely in the state-owned sector. The present scope of the public sector has thus been largely determined by the demands of the Second Five Year Plan and the conditions prevalent in the country.

As mentioned earlier, the scope of State enterprise in the industrial field was very limited in the period before independence. In the so-called British India, leaving aside a few experimental and small factories organised by some provincial governments like Madras, the main manufacturing units under Government ownership and management were those connected with defence production (this included Hindustan Aircraft which started as a private concern but was taken over by the Government during the Second World War for the requirements of the air force), workshops connected with the railways and the posts and telegraphs department and coal mines connected with the railways. The so-called Indian States of Mysore, Travancore and Hyderabad had made some efforts to develop manufacturing industries within their own territories under State auspices but not many of these units were either of great significance or financially successful. In the period after 1945 a number of new industrial units were organised under the Central Government, principally for producing products needed by certain government agencies, *e.g.*, a Locomotive Factory and a Coach Factory for supplying the state-owned railways, a Telephone Factory and a Cables Factory for supplying the Posts and Telegraphs Department etc. The Fertiliser Factory came to be developed as a result of the recommendations of an official committee which examined the food problem of the country. As a part of the public health programme of Government it was considered necessary to increase the supply of antibiotics and insecticides and public enterprises were set up for that purpose. With the setting up of the Planning Commission and the increasing emphasis on Government's role in relation to economic development the scope of the public sector came to expand further. The Government had accepted projects for the production of machine tools and for a new steel plant as important schemes for inclusion in the public sector even before the Planning Commission was set up, though the plans came to be put through only in the second half of the First Five Year Plan period. The fields in which State enterprises have now entered as a result of the policy outlined in the Second Plan include heavy electricals, heavy castings and forgings, scientific instruments (a development based upon an old government workshop for supplying scientific instruments

to the Meteorological Department), radio equipment, etc.[1] Some of the State Governments are also entering the field of manufacturing industry by setting up units for producing cement, aluminium goods, fertilisers, etc. A list of the principal State enterprises in the manufacturing field is appended. (Appendix A).

3. ORGANISATION

In the pre-independence period Government participation in manufacturing industry, as indicated above, was very limited and whatever manufacturing units were owned and controlled by the Government were mainly organised as parts of government departments. Defence production units, workshops attached to railways and posts and telegraphs, the various industrial units under the Government of Mysore, these were all organised as departmental units. Only one major manufacturing unit, *viz.* the Hindustan Aircraft Limited was organised as a company and this was due to the historical reason that it was a private company taken over by the Government for meeting war exigencies.

Even after independence new projects like the Telephone Factory and the Fertiliser Factory were organised as departmental units in their early stage of development. While certain units like the Locomotive Factory and the coach-building workshop continue to be maintained as a part of the railway organisation which is still basically departmental in character, the necessity to organise most of the manufacturing units in some non-departmental and semi-autonomous form has come to be recognised gradually. While there was some hesitation right up to 1953-54 about converting old established units like the Government-owned coal mines and the scientific instruments factory to non-departmental semi-autonomous form, since then it seems to be accepted that manufacturing units should be generally organised in some such manner. While the form of the autonomous public corporation came to be used in India almost immediately after independence for the setting up of the Reserve Bank of India and the Damodar Valley Corporation, this form has never been used for the organisation of manufacturing units. It has been confined to the organisation of enterprises in fields like banking, insurance and transport. The joint-stock company has been the form considered more suitable for the organisation of manufacturing units in the public sector. Almost all the manufacturing units in the public sector, barring defence production units, posts and telegraphs workshops, railway workshops (these workshops are of course maintained principally for the purpose of repairs and maintenance and only partially for manufacturing) and the Locomotive Works at Chittaranjan and the Railway Coach Workshop at Perambur, have now been organised as companies. Even in States where there is no such universal tendency some of the more important units are being converted to the company form.

Till recently the policy seems to have been that, in the earlier stages of a project, it generally worked as a part of a government department and only at a later stage, when the construction work was largely complete and production was about to begin, was the project handed over to a company specially formed for the purpose. The approach seems to have been that in the earlier construction stage there are special advantages to be obtained by the project being directly under Government control. When it was likely to go into production the company form was more suitable. While this was the policy till recently, now even new projects are being set up as companies as indicated by the projects for the heavy electricals plant and the heavy machinery plant. BHEL & BHAL.

Another tendency regarding the organisation of manufacturing units is that all units are set up as independent units under a separate company. The exceptions are mainly the Hindustan Steel Company, which controls

1. Considerable expansion of capacity was envisaged under the plan in some of the existing units like Sindri Fertilisers, Hindustan Machine Tools, etc. New projects for additional fertiliser plant, for integrated use of lignite deposits, for oil exploration and refining were also included in the public sector as part of the plan.

all the three steel plants in the public sector, the Hindustan Insecticides Company which controls two D.D.T. plants and the National Coal Development Corporation which controls all the state-owned coal mines. In the case of the production of fertilisers, the two units in the public sector are under two separate companies. An attempt is sometimes made to co-ordinate the activities of State enterprises with common interests through the interlocking of directorships; for example, the Managing Director of the Sindri Fertiliser Factory is a Director of the Nangal Fertiliser Factory and vice versa. Moreover, as will be pointed out later, as related enterprises are generally under the control of the same ministry and therefore work under the supervision of the same secretariat officers, there is a further likelihood of coordination in policy matters both through common directors and at the secretariat level.

This method of organising public enterprises was severely criticised for some time and a previous Comptroller and Auditor-General of India went to the length of calling it a fraud on the Constitution. The objection was that the Government being in many cases the only shareholder, the various provisions of the company law had not much meaning in this context and the organisation of these enterprises as companies only reduced their accountability to the audit authorities appointed under the Constitution and to the legislature. Provision has been made in the new Companies Act to meet this criticism. Special clauses have been included in the Act regarding Government companies which are defined to mean any company in which not less than 51% of the share capital is held by Government. (See Appendix B). In these companies the auditor is to be appointed by the Government on the advice of the Comptroller and Auditor-General of India, the latter also having the power to conduct a special audit if he considers it necessary. The Act also laid down that the controlling Government shall place before the legislature an annual report along with the annual accounts and audit report. This provision has meant that no longer can the above type of criticism be levelled at the organisation of State enterprises in the form of companies.

Most of the manufacturing units in the public sector organised in the form of companies get the whole of their share capital from the controlling Government. Such is the case with Sindri Fertilisers and Chemicals, Hindustan Machine Tools, Hindustan Cables, Hindustan Antibiotics, Hindustan Insecticides, National Coal Development Corporation, Bharat Electronics etc. In a few cases a State Government is associated as shareholder, as for example in Hindustan Aircraft and Indian Telephone Industries where the State Government of Mysore, in whose territory the project is located, holds a small proportion of shares. Another type of associated share-holding is indicated by the case of Hindustan Shipyard where the Scindia Steam Navigation Company, the former managing agents for the concern, hold some shares. There was also some idea at one time of associating foreign private firms, collaborating with the Government of India in the setting up of a concern, as minority shareholders. This was done, for example, in the case of Indian Telephone Industries and the Hindustan Steel Company. In the former case the Automatic Telephone and Electric Co. Ltd., a British concern, continues to hold a small percentage of shares. In the latter case the Government decided to eliminate the share-holding of the German collaborators in the Rourkela Steel Plant and now the whole share capital is provided by the Central Government.

As regards the composition of the Board of Directors, by and large, the Boards have consisted of a senior civil servant, many times the Secretary or Joint Secretary of the controlling ministry; an officer from the Ministry of Finance and civil servants from other connected ministries; one or two businessmen from the private sector; one or two persons with specialised scientific or technical knowledge in that field; one or two persons from public life (sometimes politicians); and sometimes a labour leader. The labour member, however, does not represent the workers in the company as such and has

not so far ever been an employee of the same company. The majority of members belong to the category of Government officials. Participation by individuals belonging to the private sector in the management of government industrial and commercial enterprises has been significant in a few cases; *e.g.*, the present chairman of the Sindri Fertilisers and Chemicals Ltd., which is one of the biggest public industrial undertakings in the country, is an industrialist. Generally the number of directors varies between seven and twelve.

The Board of Directors is given the general power of running the business of the company. The Articles of Association mention the various powers which the Board may exercise. The articles are largely similar in the case of most companies set up by the Union Government (See Appendix C). Slight variations may occur in individual cases, but the broad pattern of the powers of the Board is the same.

The Directors are all appointed by the President in the case of companies fully owned by the Government of India and generally hold office during his pleasure. Where a part of the capital is contributed by other parties, they have the right to nominate a few directors. Each Board has a chairman who is appointed by the President and holds office during the pleasure of the President. Chairmen of public industrial undertakings, with a few exceptions as at present, are titular chairmen, the exceptions being the Nangal Fertilisers where the chairman is also the Managing Director and the Hindustan Steel which has a chairman who is also the principal executive officer. These two are full-time chairmen. The practice generally is to appoint a senior official, often the Secretary, of the administrative ministry concerned as the chairman of the company. However, there have been a few instances of variations. The case of a non-official being the chairman of Sindri Fertilisers has already been mentioned. Sometimes a technical expert is appointed as chairman. Government has also sometimes appointed officials of another Ministry as chairmen.

As regards the powers of the chairman, while the Articles of Association of some (recently set up) companies have specifically defined them, others have left the matter undefined. The Articles of Association of the Nangal Fertilisers and Chemicals states that "The Chairman shall reserve for the decision of the Central Government any proposals brought before the Board which raises in the opinion of the Chairman an important issue and which is on that account fit to be reserved for the decision of the Central Government". However, in most such cases, there is also another provision which says that if on a matter so reserved by the Chairman, a decision of the Central Government is not received within a period of two months, the Directors shall be entitled to act in accordance with the proposal or decision without further reference to the Central Government. In the Articles of Association of National Instruments Ltd., it has been also laid down that no decision in respect of an issue which in the opinion of the chairman is of importance shall be taken by the Board of Directors unless the chairman appointed by the President is present. In the case of Hindustan Steel, not only the chairman but any director can reserve an issue for the decision of the Central Government.

With regard to the day-to-day administration of the company the practice is to appoint a Managing Director who is a member of the Board of Directors. He is the chief executive officer of the company and works as a full-time executive. In many cases, the Managing Directors are government officials serving the company on loan from the government for contracted periods. The Managing Director is responsible to the Board and his powers are such as are delegated to him by the Board. An interesting feature about the Managing Director is that although he is a servant of the company and works under the supervision and guidance of the board of directors, he is not appointed by the Board. Instead, he is appointed by the President who also determines the terms and conditions of his service. The Board does not also have the power to dismiss him which is a prerogative of the President. In the case of Hindustan Steel, the power to appoint

the General Managers (who are like Managing Directors of the individual plants) and also the Financial Advisers and Chief Accounts Officers, is reserved for the President.

Although the Articles of Association of almost all government companies have provided for the appointment of Boards of Management, so far it has been done only in a few cases like Hindustan Aircraft and Bharat Electronics. The Board of Management consists of the Managing Director and the Heads of Departments. In some cases, however, instead of Boards of Management, Standing Committees of the Boards have been set up. Such Committees consist of some members of the Boards of Directors and are empowered to take important decisions on behalf of the full Board.

One more aspect that has to be mentioned in regard to the Board of Directors is the part played by the Finance Ministry. The Finance Ministry is always represented on the Boards of Directors. This ensures that the necessary advice is available to the Board for arriving at any decision regarding financial matters. A convention has also been set up by which, whenever the Financial Director disagrees with the rest of the Board, the matter is brought to the notice of the Government and a final decision is taken only after ascertaining the views of the Government.

Government retains considerable control of the functioning of the Government companies. Government's powers are specifically mentioned in the Articles of Association of each company. The broad pattern is the same in all cases (See Appendix C). These powers include the appointment and removal of the Directors, the Managing Director and the Chairman and deciding the terms and conditions of their appointment. In financial matters, Government approval[1] is necessary for undertaking any works of a capital nature involving an expenditure of Rs. 10 lakhs or more, for all matters regarding the issue and allotment of share capital, for the issue of debentures, for making investments in securities, for deciding to grant a share in the profits to any employee(s) of the company, for appointing any person in a post the maximum pay of which is Rs. 2,000 or more per month and for distributing profits. The Government appoints the auditor of the company on the advice of the Comptroller and Auditor-General of India.

The Articles of Association of all companies also contain the provision that, notwithstanding anything contained in the Articles of Association, the President may, from time to time, issue such directions or instructions as may be considered necessary in regard to the conduct of business by the company and the company shall give immediate effect to the directions or instructions so issued.

Apart from these formal methods of control, in practice government control over public enterprises has been exercised through various other means. The practice generally prevalent up to now of appointing the Secretary of the controlling Ministry (in India the Secretary to Government is the chief adviser of the Minister and the topmost permanent official of the Ministry) as the Chairman of a State enterprise which is under the administrative supervision of his Ministry has been a very powerful controlling influence. As Secretary he is in a position from where he can exercise considerable control over the conduct of the company, especially in matters about which consultation with and approval of the Government is needed. By virtue of being its Chairman, he may also be able to influence the decision-making process in the Board. Besides this, another important factor is that the majority of the members of the Board being officials of the Government, the Board is bound to reflect Government policy without the Government having to give a formal directive to the company.

1. The position varies in certain cases. Generally in the case of small companies, the powers delegated to the Board are more restricted; in large companies they are greater in scope. For example, approval of Government is necessary for every capital project when the expenditure exceeds Rs. 5 lakhs in the case of Hindustan Insecticides and National Instruments, Rs. 50,000 in the case of Nahan Foundry, and Rs. 20 lakhs in the case of National Coal Development Corporation.

4. MANAGERIAL PERSONNEL

As pointed out above, the Chief Executive Officer of each enterprise is generally the Managing Director. The large majority of these as well as of other top personnel is found to be obtained from amongst administrative officers of Government. Except in the case of the Locomotive Works, the Railway Coach Factory and the Telephone Factory where the chief executives are obtained from amongst persons with considerable technical knowledge and experience in that field, the top executives in most other enterprises are persons with a general administrative background. In a few cases persons with technical or managerial experience in other Government undertakings like the railways are put in the top executive positions of new enterprises. For example, the present Managing Director of Sindri Fertilisers and the Chairman of Hindustan Steel are former railwaymen. The Chief Accounts Officer or Financial Adviser in most enterprises is an officer of Government with previous experience either in the Ministry of Finance or in Accounts and Audit. Most of these enterprises are too new to have any persons grown up in the enterprises acting in the top positions. Very few of the top executives have a background of managerial experience in private industry.

The question of having a proper system of recruitment for management personnel in the public sector has been engaging public attention for some years. Now it has been decided by the Government to constitute an Industrial Management Pool for the purpose of manning the top management positions in the industrial and commercial undertakings of the Government. Recruitment to the pool is to be made from amongst civil servants and others with requisite background and experience. It has been decided that promotions in the pool will go largely by merit and that no automatic promotions on the basis of seniority will be made. The idea is that such a pool will create opportunities for young managerial personnel both to show their capacity and to obtain broad-based experience of management in different fields which will help them to occupy top managerial positions in the various public enterprises effectively. It has been decided that no post will be reserved for members of the pool. Senior posts in the industrial undertakings will be available both to officers from the pool and to officers not belonging to the pool but operating in the various undertakings. The State Government of Mysore which has a large number of industrial concerns under its management has also recently decided to create a separate industrial cadre for the management of industrial concerns. This is considered necessary to ensure that proper managerial personnel is developed for the task of efficient management of these concerns. The first batch of recruits to the Industrial Management Pool has been only recently selected and it is difficult at this stage to say to what extent this experiment will succeed in its objectives.

5. PROBLEM OF INCENTIVE

In thinking of the system of incentives, it is necessary to distinguish between incentives for the managerial staff and those for the supervisory and productive workers. While the necessity to provide some sort of monetary incentives for the latter category has been accepted in the last few years it continues to be the official policy that no such incentives are necessary for the former category. Actually even the fixed salaries of the managerial personnel in the public sector are related closely to those of civil servants. Most of the managerial personnel being personnel on deputation from Government service they are generally paid their grade pay plus some special pay. In any case the salaries of the managerial personnel are very much lower than those in private industries, even in the case of important concerns. The idea of providing any sort of incentive bonus for managerial personnel is not accepted.

As regards the workers operating in the workshops, the necessity to provide some system of payments based on results is gradually coming to be accepted. Hindustan Aircraft and Chittaranjan Locomotive Works

were the principal pioneers in this matter in the public sector and following the experience gained there, in many of the engineering enterprises in the public sector a system of incentive bonus payments is being used. But even in these cases this system is not applicable to the senior supervisory staff. The idea of profit-sharing has not been accepted in principle by Government. In practice *ad hoc* bonuses have been declared out of the profits made by enterprises like Sindri Fertilisers and this is increasingly becoming a common feature of enterprises which are working at profit but no definite principle about this profit-sharing has still been laid down or accepted by the Government. It remains an essentially *ad hoc* decision, though in theory the bonus is supposed to be related to productivity. (See Appendix G).

A system of inviting suggestions from workers for bringing about improvements in techniques of production prevails in most enterprises and awards in cash are given for suggestions that are found to be of some practical value. In the case of enterprises which have their own house journals, the photographs of persons who put forward useful suggestions are published in these journals and sometimes the awards are given at special functions organised for the purpose. Thus an attempt is made to encourage employees to take interest in the efficient working of the enterprise.

A considerable effort is made in many of the newly developed State enterprises to provide special facilities for the training of employees. In cases like Hindustan Machine Tools where new techniques have to be taught to a large number of newly-recruited persons, special training schools have been established and a paid system of apprenticeships instituted for the purpose of ensuring sufficient supply of technically skilled personnel. Even in other concerns like Indian Telephone Industries, Chittaranjan, etc., special efforts are being made to provide facilities for training of persons already engaged in the enterprise and also apprentices. The enlargement of such facilities is bound to help improve the efficiency of the concerns and further these training facilities are bound to be of use to the country as a whole. A further point in this connection is that with the provision of evening classes and such other facilities for the workers to improve their technical knowledge and capacity, the prospects of promotion for workers could be definitely improved. Of course, the present position is that there is not much vertical mobility in Indian industry whether privately-owned or public-owned and superior positions are in practice closed to persons starting as semi-skilled or skilled workers. This is partly due to the lack of in-service training facilities for workers. There are also other difficulties, an important one being the necessity to have a sufficient knowledge of English for persons who want to obtain higher qualifications and attain more responsible positions.

In the newly-established enterprises we find that good care has been taken to plan the factory in appropriate ways. Attention is given to ensuring a proper lay-out, sufficient ventilation and lighting and enough space for possible expansion. The use of various modern devices of management like cost accounting, industrial engineering, work study, etc., is getting to be common in all these enterprises.

6. INTERNAL WORKING

It has been mentioned earlier that the chief executive of most of the enterprises organised in the form of companies is the managing director or general manager who derives his powers on the basis of delegation made by the Board of Directors. An examination of the powers enjoyed by the managing directors or general managers of different enterprises indicates that there is no uniformity about this delegation of powers. Some idea about the delegation of powers considered proper in the case of a large enterprise will be obtained from the statement of powers delegated to the Managing Director of Sindri Fertilisers which is given in Appendix D. Comparing this with the powers delegated to the General Manager of National Instruments Factory, a statement of which is also included in that Appendix, one sees how the delegation varies. It may be said that the

delegation is related not merely to the size and importance of the unit; it also seems to depend upon the type of person who is expected to occupy the post of managing director or general manager. Ordinarily of course the managing director or the general manager of a major enterprise would be senior enough to create a feeling of confidence in the board and, therefore, more powers would be delegated to him. The extent of delegation also seems to vary according to the stage of development reached by the enterprise. During the construction stage, more financial powers for sanctioning capital expenditure may be necessary than in the full operation stage. Thus there are more powers delegated in some respects to the Managing Director of Hindustan (Nangal) Fertilisers (which is under construction) than to the Managing Director of Sindri Fertilisers.

There is also the further problem of delegation by the managing director or general manager to various officers working under him. It is not unusual for complaints to be heard from the managing directors or general managers about the insufficient delegation of powers to them and for similar complaints to be heard from the officers below the managing director. In both these cases it may be mentioned that one difficulty certainly stands in the way. Unlike in the U.K., where some limit to Parliamentary control of Public Corporations has been self-imposed by Parliament, here in India legislatures seem to insist on full accountability to the legislature including the right to investigate and discuss various details about management. This degree of parliamentary control and the necessity arising therefrom of the minister having to answer various questions even relating to detailed operations means that the minister and therefore the secretariat does not like to delegate too much power in practice (if not in theory) to the managing director and the managing director does not like similarly to delegate too much power to his subordinates. The resulting centralisation is known to reduce initiative at various levels and to delay important decisions.

The special position enjoyed by the director appointed by the Finance Ministry on the board of directors has already been mentioned. A further peculiarity is that a similar special position is enjoyed by the financial adviser-cum-chief accounts officer of the enterprise. There seems to be a convention that this officer is appointed on the recommendation of or at least with the approval of the Finance Ministry.[1] In most cases the persons appointed to this post are persons with a background of experience in the Finance Ministry or the Accounts and Audit Service. Even though the officer is formally subordinate to the managing director or the general manager, in practice there is a convention that powers delegated to the managing director, in so far as they have a financial aspect, can be exercised by him only with the concurrence of the financial adviser-cum-chief accounts officer. In case of a difference of opinion, the managing director has to report the matter to the Board of Directors and the Board can take the final decision in the matter. In departmentally organised undertakings like Chittaranjan Locomotive Works and Perambur Coach Factory, the Chief Accounts Officer has a right to represent matters to the Financial Commissioner of the Railways who is a member of the Railway Board and who in turn has the right to refer matters to the Finance Minister in case of disagreement between him and the other members of the Railway Board. Finance officers with this sort of *de facto* position and with the background that most of them come from have been known in some cases to prove difficult from the point of view of efficient business management. The tradition of being overcautious is something that not all of them can easily give up. Moreover this special position given to the financial adviser means

1. In some cases like Hindustan Steel, it is laid down in the Articles of Association that the President will appoint this officer. The general provision regarding the President's approval being necessary in the case of appointments whose maximum pay is Rs. 2,000 or more can also ensure that the Finance Ministry is consulted before the appointment is made.

that the line of command in the enterprise is blurred and a sort of dual control comes to be established.

7. ACTUAL WORKING OF THE MANAGEMENT ORGANISATION

The subject of management of public enterprises in India has been a controversial one. Different authorities have expressed different opinions about the effects of the special features of the public enterprise organisation as it has been built up in India. As the Planning Commission put it, "Questions relating to the organisation of public enterprises are under constant review and greater experience is needed before a clear view as to the relative advantages of different forms of organisations emerges"[1]. Therefore, it would be enough to put forward certain facts which shed some light on this problem. As mentioned above, the composition of the board of directors has been such as to ensure the appointment of a large number of secretariat officers *ex officio* as directors. This has led to very rapid changes in the personnel on the boards as a result of the frequent transfers to which secretariat officers are subject. To take only one example, in the case of Hindustan Machine Tools, in the period between 1953 and 1957, leaving aside the managing director and the nominees of the foreign collaborators in the project, the maximum period for which the same director continued on the board was two years and nine months; the minimum was one month. Eleven appointments lasted less than a year though some of the appointees were re-appointed after some time, presumably because they were transferred away from a post for some time and again were appointed to that particular post. Sometimes even the chief executive officers have changed too frequently. To give probably an extreme example, in the case of Sindri Fertilizers, in the course of one year—1953-54—there were three managing directors, one worked in April and May and again from June to September, a second one worked in May and June, and a third one worked from September onwards. Such frequent changes in the directors as well as in the managing directors are obviously bad from the point of view of good and efficient policy formulation and management.

Another feature about the composition of the boards, as mentioned earlier, has been that a few businessmen, some members of the legislature and some labour leaders, are appointed as directors of government companies. As regards businessmen, while generally persons with considerable experience of business in the particular field are chosen, care is taken to see that businessmen belonging to enterprises which are in some ways directly competing with the particular enterprise are not appointed. In a few cases where this was done, the experience has not been particularly happy. As regards members of the legislature and labour leaders appointed to the boards one noticeable feature is that most of these persons belong either to the party in power or to the labour organisation which is attached to the party in power.

It is also interesting to note that a few directors are common to a large number of enterprises. For example, one senior officer of the Ministry of Commerce and Industry has been appointed as a director on a number of enterprises under the control of that Ministry. The Finance Ministry is also similarly tending to appoint one senior officer as its nominee on a number of boards. Such appointments can ensure that there would be in course of time a cadre of government officers whose main field of work is policy making for public enterprises and they will be in a position both to provide expert advice in policy formulation and to bring about the necessary coordination in the policy formulation of different public enterprises. Another type of interlocking of directors is the appointment of the managing director of one enterprise as a director on the boards of some other enterprises. This can be similarly useful. There is also a recent tendency to appoint as chairman not the secretary of the controlling ministry who is the person who advises the minister about the use of the governmental

1. Second Five Year Plan—Page 138.

powers of control in respect of enterprises under the control of that ministry, but some other officer either from the same ministry or a senior officer from another ministry. Thus the Secretary-General of the External Affairs Ministry is the Chairman of an industrial enterprise under the control of the Commerce and Industry Ministry. Another alternative that is being attempted is to appoint officials or non-officials with technical knowledge in the particular field but unconnected with that particular enterprise otherwise as chairmen. These developments are somewhat recent and it is therefore not possible to say how far they will be found to be better than the arrangements existing up to now.

As regards the controversy regarding the composition of the boards, the justification put forward in favour of the appointment of a number of civil servants on the boards is that it makes for smoother progress and functioning of the enterprises. The civil servants know the basic policy of the Government. They are in a better position to understand what measures the Government is likely to find objectionable and therefore the possibility of conflict between the enterprise management and the controlling government is minimized. Further, the Government can delegate more authority to the boards if a large number of civil servants sit on the board of directors as the Government naturally reposes more confidence in these officers than it would in non-officials generally. There is also the other problem that the number of enterprises is already large and is further increasing and it would be difficult for Government to find outside the ranks of civil servants sufficiently experienced and competent persons to appoint as directors. It is also pointed out that non-officials having no stake in these concerns may not take enough interest and there is also a possibility that some of them may be ideologically opposed to the expansion of the public sector and therefore may not be very helpful and cooperative.

Regarding the delegation of powers from the Government to the boards a study of the powers delegated shows that, by and large, it cannot be said that the boards have not been given enough powers to carry out their task in an efficient way. The criticism many times is that while the powers delegated are adequate the composition of the boards is such that they cannot function genuinely as autonomous management units. It is said that the various secretariat officials, and this is especially said about the officers representing the Ministry of Finance, operate on the board not as individuals but as spokesmen for their ministries. The officers managing the enterprise frequently complain about the over-interference by Government in their affairs and by this they mean the interference by directors who are on the board whom they take more as mouthpieces of Government than as directors internal to the enterprise.

The managerial staff for many of the enterprises having been drawn from Government services, the functioning of the enterprises has been considerably influenced by governmental procedures and methods.[1] This is obvious in the case of enterprises which are organised departmentally. For example, for one departmentally-run factory there was no general manager for a period of two years as the Union Public Service Commission was selecting a suitable person for the post. In the case of a steel plant, which was in its earlier stage departmentally organised, it was decided to grant an outfit allowance to trainees who were selected to go abroad for acquiring technical skills. The outfit allowance had not been finally sanctioned and paid for more than a year after these trainees reached the country where they were to be trained. What is interesting is that similar difficulties seem to arise

1. The extent to which the managerial posts are held by government personnel will be indicated from the following information about the Bhilai Steel Plant: The following was the background of the principal officers of the plant in 1957-58:

General Manager: ICS; Financial Adviser: Retired Accountant General; Chief Engineer: From the Railways.
Deputy General Manager: IAS; Add. Dpty. General Manager: IAS; Director of Purchases: IAS.
(I.C.S.—Indian Civil Service; I.A.S.—Indian Administrative Service)

even in the case of enterprises organised in the form of companies because of the continued use of governmental procedures and methods which follows from the existence of a large number of persons from government service in these enterprises. Of course, one of the difficulties in adopting procedures and methods for speedy disposal of problems is that as the concerns are newly organised and personnel brought together from various sources, it takes time for them to get to know and understand each other and therefore there is greater insistence on rigid procedures. Departmental procedures many times do not stand in the way of quick decision making in the case of a well-established organisation when the persons operating in it are well known to each other as a result of having worked together for a long time. Obviously it will take time for this result to be attained in the case of most of the State enterprises.

The continuance of Government methods of functioning in these enterprises is also indicated in another way. If retired Government servants are employed in the enterprises their salaries are fixed as in the case of re-employment under Government, that is, after taking into account the pension that they may be obtaining. Thus as between two persons employed for similar work there can arise a difference in salary because one is a retired Government servant while the other is obtained from another source. This sort of distinction leads to dissatisfaction and makes it difficult for Government enterprises to attract the best amongst the retiring Government servants who find that they do not lose any benefits in this manner if they join private business employment. Another effect of the close connection of these enterprises with the Government is that political considerations tend to influence their functioning in certain ways. One example is that the policy pursued by Government of reserving a certain proportion of posts in various administrative cadres for backward communities tends to be adopted even in public enterprises. Leaving aside the question whether such reservation is justified even in the case of administrative cadres, it can certainly be said that in the case of productive enterprises such reservation is bound to affect adversely the efficiency of the undertaking. The possibility of political interference in matters of appointments, promotions and disciplinary measures is also considerable when there is such a close connection between the Government and the enterprises. This is especially so in view of the fact that appointments to the posts in the enterprises are not necessarily made through the Union Public Service Commission. As regards disciplinary measures, many managements feel that their hands are not free in this respect as cases do arise of the aggrieved employees using their influence with the local labour leaders and political leaders to get the orders changed through ministerial influence. There is no simple remedy which could remove these various tendencies which are a part of the problems of a newly developing democracy. But if the boards were not so closely related to Government, perhaps some of these tendencies could be more easily curbed.

9. FINANCIAL ASPECTS

As most of the manufacturing enterprises in the public sector are now organised in the form of companies they obtain their capital largely in the form of share capital. The few enterprises that continue to operate on a departmental basis, notably the two Railway manufacturing Workshops at Chittaranjan and Perambur, obtain their capital on the same basis as the Indian Government Railways and they pay dividends or rather the Railways pay the dividends on the capital invested in them on the same basis as on the total capital-at-charge of the Railways. A statement regarding the financial position of some important manufacturing enterprises of the Government of India is presented in Appendix E. It will be seen that besides share capital, loans from Government also play an important part in the total capital made available to some of the enterprises. There seems to be no definite principle about what part of the total capital requirements is to be made available as loans and what part as share capital. The practice seems to be that when finance is required for new construction or expansion

it is first made available as a loan and later the whole of it or a part of it is converted into share capital. The requirements of working capital are generally provided for from loans from the Government or from banks and not by way of additional share capital. This insistence on the grant of large amounts of capital requirements in the form of loans rather than share capital means that in its earlier stages a concern has to bear a heavy burden of interest and that makes its financial position difficult. Loans granted by Government sometimes form quite a high percentage of the total capital invested in the concern. It is as high as 15% or 20% in many cases and sometimes as in the case of Hindustan Machine Tools it may be even higher.[1] The heavy interest burden in the construction and early operational stage may not permanently affect the financial position of a concern adversely as usually a substantial part of the expenditure incurred during the construction and developmental stage is not capitalised but written off when the concern begins to make profits. But still the fact that the concern, because of this necessity to write off large amounts, cannot pay any dividends to Government is taken as an indication of inefficiency by the public as compared to private concerns which obtain their initial capital largely as share capital and therefore are under no obligation to pay interest on this in their developmental stage and, therefore, when they begin to make a profit they can show that they are paying handsome dividends. Moreover if a substantial part of the working capital has to be obtained by way of loans that does affect the financial results of an enterprise adversely. Of course, as a concern builds up internal reserves, it can gradually do without outside loans for its requirements of working capital.

It is not necessary to discuss the problems of price policy, financial results, etc., as these have been discussed in some detail separately. The basic objective of price policy is to establish prices which are reasonable. In most cases well-established concerns are able to sell their products at prices which compare quite well with CIF import prices, and as the output increases and the concern gains in efficiency, at least a part of the benefit is shared by the consumers. Prices are in most cases fixed at levels which enable the enterprise to make profits. The financial statement (Appendix E) enclosed shows that many of the important manufacturing enterprises in the public sector, once they are well-established, make good profits.

As regards the utilisation of the profits made by the enterprises the policy seems to be to use these profits more for building up the concern on a sound financial footing and for helping its further expansion than for providing dividends at high rates to the investing government. This is especially so in the case of Union Government enterprises. For example, Hindustan Aircraft has distributed a dividend at a low rate only once in the last ten years, the bulk of its profits having been used for building up reserves for research and development, for plant rehabilitation and for general purposes. The total reserves built up to 31st March 1957 came to Rs. 1.31 crores as against the paid-up capital of Rs. 10.3 crores. In the case of Hindustan Antibiotics, the profits have been used to repay Government loans and then to build up reserves for expansion, especially taking note of the fact that in an industry like this technical obsolescence is rapid and therefore replacement of plant may have to take place at frequent intervals. In the case of Sindri Fertilisers the position is even better because the concern has paid fairly good dividends on the capital invested and still built up good reserves and used them for meeting a part of the cost of the expansion schemes.

In the case of quite a large number of the Union Government concerns in the manufacturing field, the principal customers are either Government agencies or departments. This is the case in regard to Indian Telephone Industries, Hindustan Cables Factory, Hindustan Aircraft, Bharat Electronics, and even Hindustan Insecticides. Even in the case of others like the

1. Paid-up capital Rs. 39 million; Loan Rs. 23.5 million (position as on 31st March, 1958).

Hindustan Shipyard the number of customers is small and therefore sales do not constitute any very complicated problem. As these concerns are largely producing producers' goods strict quality control is necessary and is found to be maintained. Because of the organised nature of their customers maintaining contact with the customers and getting to know their requirements and difficulties is comparatively easy. Sales to government organisations are also helpful in that the market is in a sense guaranteed and the prices are negotiated taking into account the actual cost and allowing a certain margin of profit. On the other hand it can mean disadvantages like orders not being placed in full detail sufficiently in advance, too much inspection during the process of production[1] and occasionally long delays in payments. These can mean quite a financial burden on the enterprise. As these enterprises are expanding, however, the problem of building up proper sales organisation is bound to become increasingly important. Some of the concerns like Indian Telephone Industries are thinking of building up export markets for their products and this will require the setting up of an effective sales organisation. This is already being done. In the case of smaller enterprises, like some of the State enterprises under the Government of Mysore, they are in competition with private manufacturers in the same field and therefore have to ensure that their products will sell in a competitive market. The tendency there seems to be to rely more on maintaining a higher quality of production and not to rely too much on selling methods for the purpose of capturing a larger share of the market.

As mentioned earlier, the Comptroller and Auditor-General is now authorized to audit the accounts of all the State enterprises organised in the form of companies. As regards those organised in the departmental form he has always had that authority. While audit by the Comptroller and Auditor-General is helpful to ensure that there is an independent examination of the financial working of the enterprise, without fear of the executive authorities in charge of the enterprises, in practice it is found that this audit may be troublesome from the point of view of the efficient functioning of the enterprises. The managements of enterprises which are subjected to audit by the Comptroller and Auditor-General many times feel that there is too much of a fault-finding attitude on the part of officers of the audit authority. While private commercial audit generally prefers not to ask too many questions, public audit is almost bent on asking too many. Instead of attempting to take an overall view as to whether the finances have been managed appropriately, audit tends to go into minor details and is interested in pointing out minor irregularities, especially procedural irregularities. There is also a tendency of raising queries which make sense only as a sort of hindsight regarding decisions that in the light of later events can be pointed out as not being quite correct. For example, if any of the developing concerns have to quote prices in advance of production and they base their quotations on their estimates of the costs that would be eventually established, and later on it is found that the costs were higher than expected and therefore there was a certain loss, immediately an objection is raised as to why it could not be realised earlier that the cost will be higher. Many questions are raised about the propriety of the expenditure incurred by the management, expenditure which may be really minor in character and may be undertaken in good faith in the interest of the business.[2]

1. For example, in one concern it was pointed out that the inspecting officer of the consumer department may not only test the final product but he may inspect every operation and if he suspects some flaw at any stage he can bring about a halt to production until he is satisfied. Such interference can lead to considerable disturbance in the organisation of production.

2. In one concern, for example, the management decided to pay for the transport and food of its employees for an annual excursion for the whole group of employees. Audit asked the concern to get a letter from the Labour Commissioner that such expenditure was considered necessary for good labour relations. In another concern an attempt was made to absorb personnel retrenched from other government concerns as an assurance to this effect had been given by the Prime Minister and, in keeping with the spirit of the assurance, travelling allowance was paid for such persons as were called for interview and tests. Audit objected to this as infructuous expenditure as some of those persons were found to be unsuitable for this particular concern.

There is also the fact that there comes to be a multiplicity of audit in the case of many government concerns. There is an audit by the private auditors appointed by the Government with the approval of the Comptroller and Auditor-General. There is an audit by the Director of Commercial Audit on behalf of the Comptroller and Auditor-General and in the case of many government concerns when their main customers are government departments and the prices are fixed on a cost-plus basis there is an audit by the audit agency (another part of the organisation under the Comptroller and Auditor-General) working for the customer department or ministry. Such multiplicity of audit can mean an unnecessary waste of time of the managerial personnel for answering the queries raised by these various auditors.

It has been pointed out by the Comptroller and Auditor-General himself that audit should concern itself more with broad matters of achievement and not with minor details. But somehow not much change of approach seems to have yet permeated to the lower levels of the audit organisation. Reliance on private auditors alone may be dangerous as these auditors may not provide a really objective analysis of the financial management of the concerns and this latter is important to satisfy the public and the legislature that State enterprises are working properly. Attempts are being made to build up specially trained staff in the audit organisations for the purpose of carrying out some sort of performance audit.

9. LABOUR

In the case of projects in the public sector that were organised in the period after independence there was considerable enthusiasm about the provision of conditions of work and welfare for labour on a scale which would be fitting with the idea of a Welfare State. The approach was that State enterprises should provide model conditions of work and living, provide good opportunities for labour for increasing their knowledge and skills and thus have avenues of promotion open to them and that when such facilities are provided a new era in respect of industrial efficiency and industrial relations would thereby be opened. Chittaranjan Locomotive Works, one of the first projects to be planned and executed after independence, can be taken as an outstanding example where this approach has been attempted on a full scale. All the conditions of good life, both in regard to work and outside life, have been attempted to be provided for the employees at Chittaranjan. The workshops are well laid-out, with modern arrangements for proper lighting and ventilation; facilities like canteens have been provided in an up-to-date way; training facilities are provided not only for apprentices who are to be newly recruited but also for already-employed workers at different levels so as to enable them to improve their knowledge and skill; promotions are based on trade tests which the employees can take with greater facility as a result of the training that they can receive; encouragement is given to workers through various types of awards to take interest in the concern; and most important of all, excellent housing has been provided to most of the employees together with various welfare and other amenities of a model township. A visitor to Chittaranjan is considerably impressed by the set of conditions of work and living that have been created there. Other new projects have made similar attempts though except in the case of the steel projects facilities on such a scale and for such a large number of employees have not been provided all at once in any other enterprise. There is an increasing tendency to provide housing for the bulk of the employees and to provide this housing in model townships provided with various welfare and other urban amenities. Cheap transport for workers who reside at long distances from the factory is organised wherever necessary as in the case of the Government of India concerns at Bangalore. Canteens, schools for children, dispensaries and hospitals, playgrounds and other sports facilities, all these are increasingly provided by most of the Central government concerns for the benefit of the employees and their families. It is true that enterprises established in the period before independence are rather

backward in these matters. But an increasing attempt is being made even there to provide all such facilities. The provision for technical training is an extremely important part of the new approach taken by management in State enterprises. In concerns like Chittaranjan, Hindustan Aircraft, Hindustan Machine Tools, Perambur Coach Factory, etc., elaborate training facilities have been provided for various categories of workers. The newly constructed projects have another special advantage in building up cordial relations with workers. Many of these projects require a large proportion of skilled workers. Many of these workers are at least educated up to the middle school stage and therefore they are better informed and more capable of increasing their skills and capacity and providing good material for building up an efficient cadre of employees for the enterprise.

As regards the conditions about wages and allowances, one cannot say that the situation of the employees in State enterprises is in any way specially different from that in private industry. Rates of wages and allowances have naturally to be related to the rates prevalent for the particular type of workers in a given area. Of course in some regions Government enterprises have created a demand for skilled labour which did not exist before and this has had an upward effect on the wage level in these regions. Further, State enterprises have been more chary regarding dismissals and lay-offs even when such measures were found to be necessary in the interest of improving efficiency. For example, Hindustan Shipyard and the Government-owned coal mines carried excess labour for a long time before an agreement was arrived at with representatives of the workers about the manner in which excess labour was to be reduced.

The Government also adopted it as a basic principle of policy to treat workers as a partner rather than as a mere tool of production. Of course, this principle was a part of the general labour policy of the Government applicable to all industry and not merely to the public sector but naturally Government attempted to pursue this policy more definitely in the case of enterprises directly under its control. Joint consultation is organised in most of the enterprises. In some enterprises joint consultation is organised at various levels there being generally a joint committee for the whole enterprise as well as a number of joint committees for different parts of the enterprise. The functions assigned to these committees are quite important as illustrated by the functions of some of the joint committees given in Appendix F. The assigning of such important functions to the joint committees indicates the seriousness with which the policy of joint consultation was attempted to be implemented. Moreover, in the last two years an attempt is being made to establish joint councils of management in some units for the purpose of implementing in a more effective way the idea of labour-management cooperation. Such joint councils with wider functions have been set up in a few enterprises in the public sector like Hindustan Machine Tools and Hindustan Insecticides. Either through the recognised or unrecognised trade unions or through the joint committees management makes an attempt to consult labour on a large number of matters. Wherever a scheme of payment by results has been adopted, it has been done only after consultation with labour. Workers' representatives have been actively associated in many cases with the management of welfare facilities. The Chittaranjan Locomotive Works, for example, has set up a number of area committees for the purpose of managing the township facilities and these work in certain ways like "panchayats" in the various areas. There are instances where labour representatives are consulted even about matters like the allotment of housing.

With such a policy what is the record regarding labour relations? Does it show that these enterprises have been able to establish better relations with labour, managing to make labour a partner in national enterprise? It is obviously difficult to generalise about a problem like this as the situation varies considerably from enterprise to enterprise. It may be mentioned that the actual record of labour relations as indicated by the statistics of strikes and lock-outs is generally not bad. Active hostility has not

existed for any length of time in any enterprise. Of course, the situation has been more difficult in the case of enterprises which have had to go through difficult stages of transition as a result of unusual circumstances faced by them. Special difficulties in the Hindustan Shipyard, Hindustan Aircraft and the Government-owned coal mines can be ascribed to some extent to such peculiarities. But in the case of new projects especially it seems that the relations are tolerably good. There seems to be a genuine attempt at consultation on the part of management and at cooperation on the part of employees in concerns like Hindustan Machine Tools, Indian Telephone Industries, Perambur Coach Factory etc.

It is not however possible to say that with all the facilities provided to workers there has been any remarkable change or improvement brought about in State enterprises in the matter of labour relations. One indication of the lack of success is the fact that formal recognition of trade unions continues to be delayed as far as possible by the managements of many State enterprises and recognition continues to be denied by important and well established concerns like Chittaranjan Locomotive Works. The difficulties faced by the management in this matter are worth consideration. Sometimes there is multiplicity of unions as happens to be the case in many Indian industries the Unions being affiliated to different political parties. The leadership of the unions is many times provided by leaders of political parties, and sometimes that combined with the multiplicity of unions leads to a sort of competition in irresponsibility. The pressure that a recognised and therefore well-established union which is not very responsible in its approach can bring to bear on management can make the task of building up efficiency in a new concern considerably difficult. An example illustrates the point. In one concern the trade union was recognised by the management at a verp early stage and since then the union has been consulted continuously on all important matters and various facilities have been given to the union to establish itself amongst workers. But even then while the management has had no active disputes on its hands, the union being on friendly terms with the management, management has been still unable to enforce measures of rationalisation because of the union's opposition. It is an automatically working chemical plant and still quite a large number of unskilled workers are employed. This is because the skilled workers refuse to do some of the related unskilled jobs as being below their skill and dignity and therefore a large number of helpers have to be employed who are idle most of the time. This means higher costs and lower efficiency. Management finds it difficult to change this position. In another case the management has refused to countenance any union organisation and actually they have prevented any union activity from taking place in the township in which a large number of employees live. This has enabled the management to maintain good labour discipline, to prevent any unnecessary increase in the number of employees, to enforce proper labour norms on workers and thus to maintain a high level of labour efficiency. It is obvious, therefore, that the problems faced by the management in this respect are not easy. It has been found that in most cases labour leadership is reluctant to cooperate in improving efficiency and promoting discipline. Even if they are convinced of the necessity for taking certain measures they will not support the management in such measures for fear of getting unpopular. But with all these quite understandable reasons non-recognition of unions by an enterprise owned and managed by a government which generally advocates the policy of labour-management partnership is rather a bitter pill to swallow. Even in a case like Hindustan Machine Tools, where because from its inception labour-management relationship was good and therefore a joint management council was established, it has been recently reported that this experiment is not functioning very successfully.

The labour explanation for this state of affairs seems to be that many times labour representatives on joint councils are 'informed' rather than 'consulted'. This is especially so when the enterprise has a large

number of unskilled or semi-skilled workers whose representatives are many times not in a position to discuss with confidence the various problems posed before the joint committees. An enterprise with a large percentage of skilled and trained workers is in a better position to put forward its point of view on various problems referred to joint consultation bodies; and management also is quite willing in such cases to listen to them. One important difficulty mentioned by labour leaders in the way of the successful working of the joint consultation machinery is that while the local management may agree with some of the suggestions made or demands put forward by workers it may not lie within their power to give effect to these. The matters may have to be referred to the directors or to the Government and the latter may not agree at all or if it agrees it may agree after a considerable amount of correspondence and delay which leads to a feeling of frustration among the workers. Once the workers' representatives begin to feel that the local management is either non-cooperative or helpless in implementing the recommendations which on merits it itself agrees to, they lose interest in the procedure of joint consultation. Such differences or difficulties have sometimes led to joint committees being in abeyance in some of the concerns for long periods.

Thus in spite of the various attempts made by the Government to create a new era in management-labour relations no remarkable success in this matter has been achieved by State enterprises, even by the newly developed ones. One reason seems to be that the management as well as the Government take too much of a paternal attitude to the employees; they are ready to provide good conditions of work and living but are not quite willing in practice to treat workers as mature and real partners in the enterprise. As mentioned above, there may be good grounds for the fear and suspicion that the management and the Government have but it is also obvious that such a paternal attitude is not always appreciated by workers. The large economic and social gap that exists between the managerial personnel and the workers may also be partly responsible for the feeling of hostility and suspicion that one many times finds. Of course, attempts are being made to improve this situation. Chittaranjan has made an attempt to reduce the social barriers that exist between different categories of personnel through mixing up in its township the housing provided for different categories of employees. Employees at different levels live in the same neighbourhood and this may remove at least to a certain extent the social gap that exists. It is difficult to say how far this has succeeded up to now but the experiment can certainly be considered to be worthwhile. The general situation in the labour field itself is largely responsible for the difficulties in the way of building up a successful partnership. The multiplicity of unions, the policy of affiliations to various political parties and the competition that is therefore bound to exist among these unions, these make it very difficult for labour leadership to assume a responsible role. The chief executive of one important enterprise pointed out that getting the union leadership to cooperate in management may be dangerous; if they participate in management decisions they will have to take the odium for unpopular decisions and, as a result, may have to make way for more difficult and irresponsible leaders. He therefore advocated that partnership should be tried only at a later stage and at the present stage the relations with the union should be strictly on a collective bargaining basis, for coming to an agreement about the working conditions, wages, welfare facilities etc. This will ensure peace and perhaps some degree of cooperation though it may not mean partnership. But partnership anyway seems to be some way off.

APPENDICES

A—List of Public Enterprises in the Manufacturing field.

B—Companies Act, 1956, Sections 617—620.

C—Articles of Association common to most of the Government Companies.

D—Delegation of powers to the Chief Executive

(1) Sindri Fertilisers and Chemicals Ltd.

(2) National Instruments Ltd.

(3) Hindustan Fertilisers and Chemicals Ltd.

E—Statement of Financial Working of Some Major Industrial Public Enterprises.

F—Machinery for Labour-Management Co-operation.

G—Profit and Ad hoc bonus for 1957-58 in Some Public (Industrial) Enterprises.

APPENDIX A

LIST OF PUBLIC ENTERPRISES IN THE MANUFACTURING FIELD (Statements I to VI)

Statement I—*Showing Particulars of Industrial Concerns owned and managed by Central Government.*

Sl. No.	*Min.-in-Charge*	*Name of the Concern*	*Year of Establishment*	*Legal Status*	*Remarks*
1.	Commerce & Industry	Heavy Electricals Ltd., Bhopal	August 1956	Private Ltd. Co.	
2.	Commerce & Industry	Heavy Engineering Corporation Ltd.	Dec. 1958	Private Ltd. Co.	
3.	Commerce & Industry	Hindustan Antibiotics Ltd. Poona	March 1954	Private Ltd. Co.	
4.	Commerce & Industry	Hindustan Cables Ltd.	August 1952	Private Ltd. Co.	
5.	Commerce & Industry	Hindustan Insecticides Ltd.	Nov. 1953	Private Ltd. Co.	— Publicised from 1960
6.	Commerce & Industry	Hindustan Machine Tools Ltd.	Feb. 1953	Private Ltd. Co.	
7.	Commerce & Industry	Hindustan Salt Co. Ltd.	July 1953	Private Ltd. Co.	
8.	Commerce & Industry	Nahan Foundry Ltd.	Oct. 1952	Private Ltd. Co.	
9.	Commerce & Industry	Hindustan Chemicals & Fertilizers Ltd.	Feb. 1956	Private Ltd. Co.	
10.	Commerce & Industry	National Instruments Ltd.	June 1957	Private Ltd. Co.	
11.	Commerce & Industry	Sindri Fertilizers & Chemicals Ltd.	Dec. 1951	Private Ltd. Co.	
12.	Defence	Bharat Electronics Ltd.	April 1954	Private Ltd. Co.	
13.	Defence	Machine Tool Prototype Factory	1953	Departmental	
14.	Railways	Chittaranjan Locomotive Works	1948	Departmental	
15.	Railways	Integral Coach Factory	1952	Departmental	
16.	Finance	India Govt. Silver Refinery Project	——	Departmental	
17.	Department of Atomic Energy	Thorium Plant, Bombay	August 1955	Departmental	
18.	Works, Housing & Supply	Hindustan Housing Factory Ltd.	April 1953	Private Ltd. Co.	Taken over completely by Govt. in August '55.
19.	Steel, Mines & Fuel	Hindustan Steel Ltd.	Jan. 1954	Private Ltd. Co.	Incorporates 3, Steel Plants was renamed thus in March '59.
20.	Steel, Mines & Fuel	Indian Refineries Ltd.	Aug. 1958	Private Ltd. Co.	
21.	Steel, Mines & Fuel	National Coal Dev. Corpn. Ltd.	Sept. 1956	Private Ltd. Co.	
22.	Steel, Mines & Fuel	Neyveli Lignite Corpn. Ltd.	Nov. 1956	Private Ltd. Co.	Started by Madras Govt., taken over by Govt. of India in Jan. 1956 and departmentally managed till October '56.

Statement II—*Showing Particulars of Industrial Concerns owned jointly by Central and State Govts.*

Sl. No.	*Name of the Concern*	*Year of Establishment*	*Legal Status*	*Remarks*
1.	Hindustan Aircraft Ltd.	June 1942	Private Ltd. Co.	Owned by Govt. of India & Mysore Govt.
2.	Indian Rare Earths Ltd.	August 1952	Private Ltd. Co.	Owned by Govt. of India and Kerala Govt.

Statement III—*Showing Particulars of Industrial Concerns owned jointly by the Central Government. and private interests.*

Sl. No.	*Name of the Concern*	*Year of Establishment*	*Legal Status*	*Remarks*
1.	Hindustan Shipyard Ltd.	Jan. 1952	Private Ltd. Co.	Originally started by Scindia Steam Navigation Co. Ltd. But now Government of India has a controlling interest in it.
2.	Sultania Cotton Manufacturing Co. Ltd.	Dec. 1913	Private Ltd. Co.	

Statement IV—*Showing Particulars of Industrial Concerns with Central, State Government and Private Interest participation.*

Sl. No.	*Name of the Concern*	*Year of Establishment*	*Legal Status*	*Remarks*
1.	Indian Telephone Industries Ltd.	Feb. 1950	Private Ltd. Co.	Owned jointly by Govt. of India, Mysore and Automatic Telephone Electric Co. Ltd. (Liverpool, A.T.E.)
2.	Praga Tools Corporation Ltd.	May 1943	Public Ltd. Co.	Government of India, Andhra & Private Interests involved.

Statement V—*Showing Particulars of Subsidiaries of Govt. (Industrial) Companies.*

Sl. No.	*Name of the Concern*	*Year of Establishment*	*Legal Status*	*Remarks*
1.	Turpentine Subsidiary Industries Ltd.	July 1939	Public Ltd. Co.	

Statement VI—(*a*) *Particulars of Industrial Concerns owned by Government of Orissa.*

Sl. No.	*Name of the Concern*	*Year of Establishment*	*Legal Status*	*Remarks*
1.	Arbinda Tin Factory Ltd.	March 1959	Private Ltd. Co.	
2.	Balanga Iron Works Ltd.	March 1958	Private Ltd. Co.	
3.	Cuttack Iron & Steel Products Ltd.	March 1958	Private Ltd. Co.	
4.	Hansanath Ceramic Industries Ltd.	March 1959	Private Ltd. Co.	
5.	Kalinga Ceramic Industries Ltd.	March 1958	Private Ltd. Co.	
6.	Kalinga Foundry Ltd.	March 1958	Private Ltd. Co.	
7.	Kalinga Steel & Wire Products Ltd.	March 1959	Private Ltd. Co.	
8.	Kohinoor Aluminium Products Ltd.	March 1959	Private Ltd. Co.	
9.	Konark Processing Works Ltd.	March 1958	Private Ltd. Co.	
10.	Madhusudan Chemical Industries Ltd.	March 1958	Private Ltd. Co.	
11.	Mayurbhanj Oil & Oil Products Ltd.	May 1946	Public Ltd. Co.	
12.	Monorama Foundry Works Ltd.	March 1959	Private Ltd. Co.	
13.	Orissa Boat Builders Ltd.	March 1958	Private Ltd. Co.	
14.	Orissa Electrical Manufacturing Ltd.	March 1958	Private Ltd. Co.	
15.	Orissa Foundry Co. Ltd.	March 1958	Private Ltd. Co.	
16.	Orissa Wood Products Ltd.	Dec. 1958	Private Ltd. Co.	
17.	Spark Battery Mfg. Works Ltd.	March 1958	Private Ltd. Co.	

Statement VI—(*b*) *Particulars of Industrial Concerns owned by Government of Kerala.*

Sl. No.	*Name of the Concern*	*Year of Establishment*	*Legal Status*	*Remarks*
1.	Fertilizers & Chemicals (Travancore) Ltd.	Sept. 1943	Public Ltd. Co.	
2.	Kerala Cycles Ltd.	March 1958	Private Ltd. Co.	
3.	Pallathara Bricks & Tiles Ltd.	Feb. 1957	Public Ltd. Co.	
4.	Travancore-Cochin Chemicals Ltd.	Nov. 1951	Private Ltd. Co.	
5.	Travancore Electro-Chemicals Industries Ltd.	April 1945	Public Ltd. Co.	
6.	Travancore Titanium Products Ltd.	Dec. 1946	Public. Ltd. Co.	
7.	United Electrical Industries Ltd.	Oct. 1950	Public Ltd. Co.	
8.	Government Ceramic Concerns	1940	Departmental	
9.	Government Hydrogenation Factory	1949	Departmental	Factory started in 1949 and completed in 1953.
10.	Government Oil Factory	1943	Departmental	
11.	Kerala Soap Institute	1923	Departmental	
12.	Kerala Government Ceramics	Jan. 1957	Departmental	Production started in Jan. 1957.
13.	Travancore Ply Wood Industries	1947	Departmental	Government became sole proprietor in 1947.
14.	Travancore Rubber Works	1949	Departmental	Government became sole proprietor in 1949.

Statement VI—(*c*) *Particulars of Industrial Concerns owned by Government of Andhra Pradesh.*

Sl. No.	*Name of the Concern*	*Year of Establishment*	*Legal Status*	*Remarks*
1.	Nizam Sugar Factory Ltd.	April 1937	Public Ltd. Co.	
2.	The Andhra Paper Mills	..	Departmental	
3.	The Government Ceramic Factory	..	Departmental	
4.	The Sri Venkateshwra Strawboard Mills	..	Departmental	

Statement VI—(*d*) *Particulars of Industrial Concerns owned by Government of Mysore.*

Sl. No.	*Name of the Concern*	*Year of Establishment*	*Legal Status*	*Remarks*
1.	Mysore Lac & Paints Works Ltd.	Nov. 1947	Public Ltd. Co.	
2.	Mysore Sugar Co. Ltd.	Jan. 1933	Public Ltd. Co.	
3.	Radio & Electrical Manufacturing Co. Ltd.	Feb. 1946	Public Ltd. Co.	
4.	Kolar Gold Mining Undertaking	Nov. 1956	Departmental	
5.	Mysore Iron & Steel Works	1923	Departmental	
6.	The Govt. Centrai Industrial Workshop	1897	Departmental	
7.	The Govt. Electric Factory	1939	Departmental	
8.	Govt. Porcelain Factory	1932	Departmental	
9.	Govt. Sandalwood Oil Factory	1916	Departmental	
10.	Government Soap Factory	1918	Departmental	
11.	Mysore Govt. Silk Weaving Factory	1932	Departmental	
12.	Mysore Implements Factory	1939	Departmental	

Statement VI—(*e*) *Particulars of Concerns (Industrial) owned by Government of Uttar Pradesh.*

Sl. No.	*Name of the Concern*	*Year of Establishment*	*Legal Status*	*Remarks*
1.	Indian Bobbin Co. Ltd.	Feb. 1924	Public Ltd. Co.	
2.	Indian Turpentine & Rosin Co. Ltd.	Feb. 1924	Public Ltd. Co.	
3.	Government Cement Factory	Sept. 1954	Departmental	Went into production in Sept. '54.
4.	Government Precision Instruments Factory	1950	Departmental	Went into production in 1952.

Statement VI—(*f*) *Showing Particulars of Industrial Concerns owned by Government of Bombay.*

Sl. No.	*Name of the Concern*	*Year of Establishment*	*Legal Status*	*Remarks*
1.	Gondwana Paints & Minerals Ltd.	June 1946	Public Ltd. Co.	

Statement VI—(*g*) *Particulars of Industrial Concerns owned by Government of Rajasthan.*

Sl. No.	*Name of the Concern*	*Year of Establishment*	*Legal Status*	*Remarks*
1.	Ganganagar Sugar Mills Ltd.	Jan. 1945	Public Ltd. Co.	

Statement VI—(*h*) *Showing Particulars of Industrial Concerns owned by the Government of Bihar.*

Sl. No.	*Name of the Concern*	*Year of Establishment*	*Legal Status*	*Remarks*
1.	Bihar State Superphosphate Factory	April 1958	Departmental	Went into production in April 1958.

APPENDIX B

The Companies Act, 1956, Part XIII, Sections 617-620

APPLICATION OF ACT TO GOVERNMENT COMPANIES

617. Definition of "Government Company".—For the purposes of sections 618, 619 and 620, Government company means any company in which not less than fifty-one per cent of the share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments.

618. Future Government companies not to have managing agents.—(1) No Government company formed after the commencement of this Act shall appoint a managing agent.

619. Application of sections 224 to 233 to Government companies.—(1) In the case of a Government company, the following provisions shall apply, notwithstanding anything contained in sections 224 to 233.

(2) The auditor of a Government company shall be appointed or re-appointed by the Central Government on the advice of the Comptroller and Auditor-General of India.

(3) The Comptroller and Auditor-General of India shall have power—

(*a*) to direct the manner in which the company's accounts shall be audited by the auditor appointed in pursuance of sub-section (2) and to give such auditor instructions in regard to any matter relating to the performance of his functions as such;

(*b*) to conduct a supplementary or test audit of the company's accounts by such person or persons as he may authorise in this behalf; and for the purposes of such audit, to require information or additional information to be furnished to any person or persons so authorised, on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General may, by general or special order, direct.

(4) The auditor aforesaid shall submit a copy of his audit report to the Comptroller and Auditor-General of India who shall have the right to comment upon, or supplement , the audit report in such manner as he may think fit.

(5) Any such comments upon, or supplement to, the audit report shall be placed before the annual general meeting of the company at the same time and in the same manner as the audit report.

620. Power to modify Act in relation to Government companies.—(1) The Central Government may, by notification in the Official Gazette,

direct that any of the provisions of this Act (other than sections 618, 619 and 639) specified in the notification :

(*a*) shall not apply to any Government company; or

(*b*) shall apply to any Government company, only with such exceptions, modifications and adaptations, as may be specified in the notification.

(2) A copy of every notification proposed to be issued under sub-section (1) shall be laid in draft before both Houses of Parliament for a period of not less than thirty days while they are in session and if within that period, either House disapproves of the issue of the notification or approves of such issue only with modifications, the notification shall not be issued or, as the case may require, shall be issued only with such modifications as may be agreed on by both the Houses.

APPENDIX C

Articles of Association common to many of the Government companies

I. DIRECTORS

NUMBER

The President shall, from time to time, determine in writing the number of Directors which shall not be less than two.

QUALIFICATIONS

The Directors are not required to hold any qualification shares.

APPOINTMENT, REMOVAL & FRESH APPOINTMENTS

The Directors shall be appointed by the President.

The President shall have the power to remove any Director from office at any time in his absolute discretion.

Any vacancy in the office of a Director caused by retirement, removal, resignation, death or otherwise shall be filled by the President by fresh appointment.

REMUNERATION

The Directors shall be paid such salary and/or allowances as the President may, from time to time, determine.

II. CHAIRMAN OF THE BOARD OF DIRECTORS

APPOINTMENT, REMOVAL, ETC.

The President may nominate a Director as Chairman of the Directors' meetings and determine the period for which he is to hold office. If no such Chairman is nominated or if at any meeting, the Chairman is not present within 5 minutes after the time for holding the same, the Directors present may choose one of their members to be Chairman of the meeting.

The President shall have the power to remove the Chairman from office at any time in his absolute discretion and make fresh appointment.

III. MANAGING DIRECTOR

APPOINTMENT, REMOVAL, REMUNERATION POWERS, ETC.

The President may appoint one of the Directors to be the Managing Director, who shall be a whole-time employee of the company or a Board of Management consisting of two or more Directors for the conduct and supervision of the Board of Directors.

The President shall have the power to remove the Managing Director from office at any time in his absolute discretion.

The Managing Director shall be paid such salary and allowances as may be fixed by the President.

The Managing Director or the Board of Management so appointed may be authorised by the Board to exercise such powers and discretion in relation to the affairs of the company as are specifically delegated to him/it by the Board and are not required to be done by the Board of Directors of the company at the general meeting under the Companies Act.

IV. APPOINTMENT OF THE REPRESENTATIVE OF THE PRESIDENT

(*i*) The President, so long as he is the shareholder of the company, may from time to time, appoint one or more persons (who need not be a member or members of the company) to represent him at all or any meetings of the company.

(*ii*) Any one of the persons appointed under (*i*) above who is personally present at the meeting shall be deemed to be a member entitled to vote and be present in person and shall be entitled to represent the President at all or any such meetings and to vote on his behalf whether on a show of hands or on a poll;

(*iii*) The President may from time to time, cancel any appointment made under (*i*) above and make fresh appointments;

(*iv*) The production at the meeting of an order of the President evidenced as provided in the Constitution of India shall be accepted by the company as sufficient evidence of any such appointment or cancellation;

(*v*) Any person so appointed by the President may, if so authorised by such order, appoint a proxy whether specially or generally.

V. APPOINTMENT OF SENIOR EXECUTIVES

No appointment the maximum pay of which is Rs. 2,000 or more per mensem shall be made without the prior approval of the President.

VI. EXECUTION OF CAPITAL WORKS

The undertaking of works of a capital nature involving an expenditure exceeding Rs. 10,00,000 shall be referred to the President for his approval before authorisation.

VII. MATTERS RELATING TO THE SHARE CAPITAL ETC.

It is necessary for the Board of Directors to obtain the prior approval of the President in the following matters :

INCREASE OF THE SHARE CAPITAL

(*i*) to increase the share capital of the company by such sum to be divided into shares of such amount as the Resolution shall prescribe;

TO BORROW OR SECURE THE PAYMENT OF MONEY

(*ii*) to borrow or secure the payment of any sum or sums of money for the purposes of the company, subject to the provisions of Section 292 of the Indian Companies Act;

TO SECURE REPAYMENT

(*iii*) to secure the repayment of such moneys in such manner and upon such terms and conditions in all respects as the Directors may think fit and in particular by the issue of bonds, perpetual or redeemable debentures or debenture stock or any mortgage, charge or other security on the undertaking of the full or any part of the property of the company (both present and future) including its uncalled capital for the time being;

NOTES

SUB-DIVISION OF CONSOLIDATION OF SHARES

(*iv*) to sub-divide or consolidate its shares or any of them and exercise any of the other powers conferred by Section 94 of the Indian Companies Act;

TO ISSUE BONDS, DEBENTURES, DEBENTURE STOCK, ETC.

(*v*) to issue any debentures, debenture stock, bonds or other securities at a discount, premium or otherwise and with any special privileges as to redemption, surrender, drawings, allotment of shares, appointment of Directors and otherwise;

ISSUE OF NEW SHARES

*(*vi*) to issue new shares under specified terms and conditions and specified rights and privileges;

REDUCTION OF THE CAPITAL

*(*vii*) to reduce the capital of the company by paying off capital or cancelling capital which has been lost or is unrepresented by available assets or is superfluous or by reducing the liability on the shares or otherwise as may seem expedient;

TO INVEST MONEYS

(*viii*) to invest moneys in securities.

VIII. MATTERS RELATING TO APPROPRIATION OF PROFITS

It is necessary for the Board of Directors to obtain the prior approval of the President in the following matters:

TO GIVE COMMISSION

(*i*) to give to any person employed by the company a commission on the profits of any particular business transaction or a share in the general profits of the company;

TO SET ASIDE PROFITS FOR PENSION, GRATUITIES OR PROVIDENT FUNDS, ETC.

(*ii*) to set aside (before declaring any dividend) such portions of the profits of the company as the Board of Directors may think fit, to form a fund to provide for such pensions, gratuities or compensations or to create any provident or benefit fund in such manner as the Directors may deem fit;

TO SET ASIDE PROFITS FOR RESERVE FUND, ETC.

*(*iii*) to set aside, out of the profits of the company (before recommending any dividend) such sums as the Directors think proper as a Reserve Fund to meet contingencies or for equalising dividends or for repairing, improving and maintaining any of the property of the company and for such other purposes as the Directors shall in their absolute discretion think conducive to the interests of the company; and invest the several sums so set aside upon such investments (other than shares of the company) as the Directors may think fit; from time to time deal with and vary such investments; and dispose of all or any part thereof for the benefit of the company; divide the Reserve Funds into such special funds as they think fit; and employ the reserve funds or any part thereof in the business of the company, and that without being bound to keep the same separate from the other assets;

DIVISION OF PROFITS

(*iv*) to divide the profits of the company among the members in proportion to the amount of capital held by them subject

to the conditions specified in the Articles of Association of the company.

*Note: The powers of the Board of Directors in respect of these items are subject only to any directives issued from time to time by the President. The approval of the President is not obligatory in these cases.

IX. AUDIT

(*i*) By the Company's Auditors—Once at least in every year, the accounts of the company shall be examined and the correctness of the Profit and Loss Account and the Balance Sheet ascertained by one or more auditors.

The Auditor of the company shall be appointed or reappointed by the Central Government on the advice of the Comptroller and Auditor-General of India.

(*ii*) By the Comptroller and Auditor-General and his powers—(Section 619 of the Companies Act).

"The Comptroller and Auditor-General of India shall have power :

(*a*) to direct the manner in which the company's accounts shall be audited by the auditor appointed in pursuance of sub-section (2) (of Section 619 of the Companies Act) and to give such auditor instructions in regard to any matter relating to the performance of his functions as such;

(*b*) to conduct a supplementary or test audit of the company's accounts by such person or persons as he may authorise in this behalf; and for the purpose of such audit, to require information or additional information to be furnished to any person or persons so authorised, on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General may, by general or special order, direct.

The auditor aforesaid shall submit a copy of his audit report to the Comptroller and Auditor-General of India who shall have the right to comment upon, or supplement, the audit report in such manner as he may think fit.

Any such comments upon, or supplement to, the audit report shall be placed before the annual general meeting of the company at the same time and in the same manner as the audit report."

X. ACCOUNTABILITY TO PARLIAMENT : (Section 639 of the Companies Act)

"In addition to the general annual report referred to in section 638 (of the Companies Act) the Central Government shall cause an annual report on the working and affairs of each Government company to be prepared and laid before both Houses of Parliament, together with a copy of the audit report and any comments upon, or supplement to, the audit report, made by the Comptroller and Auditor-General of India.

Where any State Government is a member of a Government company, the annual report on the working and affairs of the company, the audit report, and the comments upon or supplement to the audit report referred to in sub-section (1) (of Section 639 of the Companies Act), shall be placed by the State Government before the State Legislature or where the State Legislature has two Houses, before both Houses of that Legislature."

XI. OTHER SPECIAL POWERS OF THE PRESIDENT/GOVERNMENT OF INDIA

Notwithstanding anything contained in any of the articles of Association, the President may from time to time issue such directives as he may consider necessary in regard to the conduct of the business of a company or Directors thereof and in like manner may vary and annul any such directive. The Directors shall give immediate effect to directives so issued.

APPENDIX D

Delegation of Powers to the Chief Executive
(Position as in 1958-59)

I. SINDRI FERTILISERS AND CHEMICALS LTD.

CONSOLIDATED LIST OF POWERS DELEGATED BY THE BOARD TO MANAGING DIRECTOR FROM TIME TO TIME

1. Subject to such specific restrictions as are hereinafter prescribed, power to sanction expenditure and authorise disbursements within the allocations made for specific purposes in the approved budget.

Note : The delegation is subject to the stipulation that at each meeting of the Board a statement should be put up showing all items of non-recurring expenditure exceeding Rs. 10,000 sanctioned by the Managing Director since the date of the preceding meeting.

2. Within the power to sanction expenditure delegated under (1)

(*a*) Power to enter into and execute contracts for the procurement of stores and materials, plant and machinery or for other purposes subject to a statement being submitted to the Board subsequently of each such individual item which exceeds a lakh of rupees.

N.B. The financial limit of one lakh of rupees will not be operative in regard to contracts for the procurement of the principal raw materials namely, coal, coke and gypsum.

(*b*) Power to enhance contract rates in suitable cases up to a limit of 10 per cent.

3. Subject to such rules as may be approved by the Board, power to fix hire charges for factory plant and machinery taking into account such relevant factors as market rates, the life of the plant and machinery, interest charges, operational cost etc.

4. Subject to budget provision and availability of funds, power to sanction creation of temporary posts of not more than one year's duration on a salary not exceeding Rs. 500 per month.

5. Power to select and appoint on the advice of appropriate selection committees to be constituted by the Managing Director all staff against sanctioned posts of which the maximum pay does not exceed Rs. 1,000 per month.

Note 1: It will not be essential to constitute selection committees for the recruitment of daily-rated staff or monthly-rated

staff whose maximum basic salary does not exceed Rs. 50 per month.

Note 2: (*i*) So long as the Fundamental rules remain applicable, the Managing Director will be competent to fix the initial pay of a selected candidate at any stage of the sanctioned time scale higher than the minimum in regard to any post which he is empowered by these delegations to create.

(*ii*) In regard to posts carrying a maximum pay of more than Rs. 1,000 the final selection of their incumbents will rest with the Board and it will be for the Board to allow in suitable cases such advance increments as the Board may in its discretion consider necessary.

(*iii*) In regard to appointments not covered by (*i*) and (*ii*) the Managing Director will, in the initial selection of a direct recruit have the authority to allow in his discretion not more than five advance increments where the grant of such advance increments may be necessary for securing the services of a suitable candidate.

6. Power of a Controlling Officer in respect of the Managing Director's own travelling bills and those of all personnel under his administrative control.

7. Power to write off losses of company funds lost by fraud, neglect etc., up to Rs. 1,000 and to write off irrecoverable value of stores lost by fraud or negligence of individuals or other causes up to Rs. 5,000 in any individual case subject to submission of quarterly statements of write off.

8. Power to waive compensation for loss due to failure of a contractor in all cases where the Managing Director is competent to enter into contract by virtue of the delegation made to him under item (2).

9. Power to grant exemption from the lodging of security deposits in favour of large and reliable firms and individual contractors.

10. Power to order reappropriation of building, that is, the use of a group of buildings or a building or a portion thereof for any purpose other than that for which it was constructed.

Note : All orders of reappropriation passed by the Managing Director will be put up at a meeting of the Board at the earliest opportunity.

11. Power to order demolition of buildings or sale of buildings for demolition provided the estimated value of any particular building does not exceed 1 lakh of rupees.

Note : All orders passed by the Managing Director for demolition of buildings or sale of buildings for demolition should be put up at a meeting of the Board at the earliest opportunity.

12. Power to classify factory quarters as suitable for one or more individuals or specified ranks.

13. Power to sanction reduction or remission of rents.

(*i*) for buildings rendered wholly or partially unsuitable;

(*ii*) of factory buildings occupied by private individuals or charitable institutions.

Note : This power covers the power to reduce or remit rents for services, such as, water, electricity, furniture etc.

14. Power to sanction petty ex-gratia payments of a non-recurring nature or rewards not exceeding Rs. 500 in any individual case subject to a total limit of Rs. 10,000 in any financial year.

NOTES

15. Power to sanction advances of travelling allowance in respect of the Managing Director's own tours and the tours of all staff under his administrative control on official duty.

16. Power to sanction bicycle allowance not exceeding Rs. 3 per month to all staff under the Managing Director's administrative control drawing a pay of not more than Rs. 300 per month.

17. Power to fix rates of rent for shops for business premises; and for Government quarters occupied by private individuals or contractors employed on the Fertilizer Factory subject to the condition that in no case should the rent fixed be less than the standard rent of the concerned building calculated in accordance with Fundamental Rule 45A.

18. Power to execute contracts, deeds, instruments and assurances of property and in particular:

(*i*) all service agreements;

(*ii*) security bonds for the due performance of their duties by company servants; and

(*iii*) leases of houses, lands or other immovable property.

Note : This power will cover power to auction ferry ghats, trees fishing tanks, grass, gravel, weekly markets etc.

19. Power to sanction, subject to an annual limit of Rs. 20,000, payment of travelling allowances at suitable rates in favour of non-officials, for example journalists, press representatives, candidates for interview, etc.

20. All powers of a head of a department under the Fundamental *cum* Supplementary Rules, the General Financial Rules and General Provident Fund Rules and the Contributory Provident Fund Rules so long as these rules remain applicable to the Fertilizer Factory organisation.

21. Power to institute, conduct and defend any legal proceedings by or against the company or its officers or otherwise concerning the affairs of the Company.

22. Power to refer any claim or demands by or against the Company to arbitration, and observe and perform the awards.

23. Power to make and give receipts, releases, and other discharges for money payable to the Company and for the claims and demands of the Company.

24. Powers to suspend, pending investigation of charges, any employee of the company. Power to discharge or dismiss any employee drawing a basic pay of not more than Rs. 500 per month on departmental proceedings. Power to take any disciplinary action, short of an order of discharge or dismissal, against any employee drawing a basic salary of over Rs. 500 per month.

25. Power to abolish any temporary post.

26. Power to terminate the services of any employee of the Company drawing a basic salary of more than Rs. 1,000 per month in accordance with the terms of his contract.

27. It was decided by the Board that the power to sub-delegate should be in respect of certain specific delegations made to the Managing Director. (The Managing Director was accordingly requested to put up a list of the delegated powers which he thinks he will have to sub-delegate to his subordinate officers.)

28. Powers to grant conveyance allowance to the Officers and staff on the approved scales.

29. Powers to decide question of leave to be earned by an employee while on deputation abroad in the interest of the Company.

30. Powers to decide cases of reimbursement to an employee of expenses incurred towards his own T.A. and consultation fees paid to a private doctor for obtaining specialised treatment on being referred to by the competent medical officer of the Company.

31. Power to make officiating appointment against leave vacancy on the minimum of the scale of pay.

32. Power, at his discretion, to defend in suitable cases employees in the court of law whenever they are entangled unnecessarily while serving the Company's interest and to incur expenditure connected thereto.

33. Power to fix hire charges of vehicles, sanction reduction or remission where necessary.

34. Power to sanction grants-in-aid recurring and/or non-recurring to cultural and charitable local institutions. This power is delegated for a period of one year in the first instance.

35. Powers to decide enrolment of SFCL as member in institutions such as I.S.S.I. and others and to decide the amount of annual contributions.

36. Power to enter into and execute contracts for the procurement of stores and materials, plants and machinery or for other purposes subject to a statement being submitted to the Board subsequently of each such individual item which exceeds a lakh of rupees.

37. Power to sanction free treatment of non-entitled persons, whose monthly income does not exceed Rs. 100 irrespective of the fact whether they are relations of project officials or not be vested in the Managing Director.

(2) NATIONAL INSTRUMENTS (PRIVATE) LTD.

Powers of the General Manager.

1. (*i*) Subject to such specific restrictions as are hereinafter prescribed, power to sanction expenditure and authorise disbursements within the allocations made for specific purposes in the approved budget.

Note : The delegation is subject to the stipulation that at each meeting of the Board a statement should be put showing all items of non-recurring expenditure exceeding Rs. 1,000 sanctioned by the General Manager since the date of the preceding meeting.

(*ii*) (*a*) Except for individual items of capital expenditure of considerable value for which specific sanction of the Board of Directors should be obtained, the General Manager will be empowered to sanction expenditure for minor (petty) capital works of a value not exceeding Rs. 2,000 provided such sanction does not result in an increase in the sanctioned overall capital budget. In the case of capital expenditure sanctioned by the Board (item-wise), the General Manager will have powers to sanction expenditure up to a limit of 10% in excess of the original estimates, provided the overall expenditure under the capital head does not exceed the budgetted amount.

(*b*) Repairs to plant machinery/building amounting to more than Rs. 2,500 in each case (*i.e.* major repairs) will require the sanction of the Board of Directors.

2. Within the power to sanction expenditure delegated under para 1:

(*a*) Power to enter into and execute contracts for the procurement of stores and materials, plant and machinery or for other purposes, provided open competitive tenders are invited and the lowest offer is accepted.

NOTES

N.B. 1. The General Manager will have powers to the extent of Rs. 10,000 only, in each case, if open competitive tenders are not, for any reason, invited and/or the lowest tender is not accepted.

2. A list of firms will be approved by the Chairman and the Manager, in respect of supply of major items of stores and materials not procured through the DGS&D or the DGISD, London, from time to time. Invitation to tender from such firms will be deemed as open competitive tenders for the purpose of the above rule.

(*b*) The General Manager will have powers to enhance contract rates in suitable cases up to a limit of 10% in consultation with the Chairman.

(*c*) "The General Manager shall have powers to sell any goods or articles manufactured or produced by the Company. He will also sell any surplus raw materials, equipments, tools, machinery etc. not required by the Company, with the approval of the Executive Committee of the Board of Directors".

3. The General Manager will have powers to create non-gazetted posts up to Rs. 350 p.m. on Government of India prescribed pay scales subject to budgetary provision.

4. The General Manager will have powers to appoint on the advice of the appropriate Selection Committee set up by the Chairman all staff against sanctioned posts subject to the following limits :

(*i*) In the non-industrial establishment, all posts the maximum pay of which does not exceed Rs. 220 per mensem;

(*ii*) In the industrial establishment, all posts the maximum pay of which does not exceed Rs. 185 p.m.

Note : It will not be essential to constitute a Selection Committee for the recruitment of the daily-rated staff whose maximum basic salary does not exceed Rs. 50 p.m.

5. (*i*) Power of a controlling officer in respect of the General Manager's own travelling allowance bills and those of all personnel under his administrative control.

(*ii*) Power to sanction air travel in the interests of service to officers under his control.

6. Power to waive compensation for loss due to failure of a contractor in all cases where the General Manager is competent to enter into contract by virtue of the delegations made to him under para 2.

7. Power to order reappropriation of buildings, that is, the use of a group of buildings or a building or a portion thereof for any purpose other than that for which it was constructed.

8. The General Manager will have powers to classify quarters or parts thereof as suitable for specific grades of staff and approve the scale of accommodation of officers and the staff of the company.

9. Power to sanction, reduction or remission of rents:

(*i*) for buildings rendered wholly or partially unsuitable;

(*ii*) for buildings occupied by charitable institutions or welfare institutions or recognised clubs;

(*iii*) for shops or business premises constructed for the benefit of the residents of the National Instruments (P) Ltd.

Note : This power covers the power to reduce or remit rents for services, such as water, electricity, furniture etc.

10. Power to sanction advances of travelling allowances in respect of the General Manager's own tours and the tours of all staff under his administrative control, on official duty.

11. (*i*) Power to sanction advances to employees for the purchases of cycles in accordance with the Central Government rules on the subject;

(*ii*) Power to sanction bicycle allowance not exceeding Rs. 3 per month to all staff under the General Manager's administrative control drawing a pay not more than Rs. 300.

12. Power to execute contracts, deeds, instruments and assurance of property in respect of:

(*i*) all service agreements;

(*ii*) security bonds for the due performance of their duties by Company servants; and

(*iii*) Leases of houses, lands or other immovable property.

13. Power to incur expenditure subject to an annual limit of Rs. 1,000 in connection with the visits of important non-officials.

14. The General Manager will have all powers of the Head of a Department under the Fundamental *cum* Supplementary Rules, the General Financial Rules and General Provident Fund Rules and the Contributory Provident Fund Rules so long as these rules remain applicable to the National Instruments (Private) Ltd.

15. Power to institute, conduct and defend any legal proceedings by or against the Company or its officers or otherwise concerning the affairs of the Company.

16. Power to make and give receipts, releases, and other discharges for money payable to the Company and for the claims and demands of the Company.

17. (*i*) Power to suspend, pending investigation of charges, any employee of the Company.

(*ii*) Power to discharge or dismiss any employee drawing a pay in the scale maximum of which does not exceed Rs. 350 in the case of non-industrial establishment and Rs. 185 in the case of industrial establishment.

(*iii*) Power to take any disciplinary action, short of an order of discharge or dismissal, against any employee not covered by (*ii*) above.

Note : The Chairman will be the appellate authority for these cases.

18. Power to abolish any post which the General Manager is empowered to create, *vide* para 4.

19. Power to terminate the services of any employee of the Company in accordance with the terms of his contract.

(Authority : Approved by the Board of Directors at the Second Meeting held on 31st August '57 at New Delhi).

III. LIST OF POWERS DELEGATED TO THE MANAGING DIRECTOR, NANGAL, BY THE BOARD, HINDUSTAN FERTILISERS AND CHEMICALS LTD.

1. Subject to such specific restrictions as are hereinafter prescribed, power to sanction expenditure and authorise disbursement within the allocations made for specific purposes in the approved budget.

Note: The delegation is subject to the stipulation that at each meeting of the Board a statement should be put up showing all items of non-recurring expenditure exceeding Rs. 10,000 sanctioned by the Managing Director since the date of the preceding meeting.

NOTES

2. Within the power to sanction expenditure delegated under para 1:

(*a*) power to enter into and execute contracts for the procurement of stores and materials, other than plant and machinery the Board subsequently of each such individual item as exceeds a lakh of rupees;

(*b*) power to enter into and execute contracts for the procurement of plant and machinery of which the cost does not exceed one lakh of rupees for any individual item;

Note : The delegation in sub-para (*b*) is subject to the condition that a statement shall be submitted to the Board at the earliest opportunity of each such individual item as exceeds ten thousand rupees.

(*c*) power to enhance contract rates up to a limit of 10 per cent in cases where the Managing Director is competent to enter into contracts under sub-paras (*a*) and (*b*). The reasons for enhancement should be recorded in writing in every case;

(*d*) power to accept a tender other than the lowest provided that the reasons for not accepting the lowest tender shall be recorded in writing.

3. Power to incur expenditure in emergent circumstances:

(*i*) on objects for which there is no specific provision in the approved budget, or

(*ii*) in excess of allocations for specific purposes in the approved budget,

provided that the total budget is not exceeded. A statement of all sanctions issued under this paragraph shall be submitted to the Board at the earliest opportunity.

4. Subject to budget provision and availability of funds, power to create temporary posts on a salary not exceeding Rs. 500 per month for a period of not more than one year, and to extend their duration for further periods so as, however, not to exceed a total duration of more than two years for any temporary post.

Note : A six-monthly statement of all posts created under this delegated power shall be submitted to the Board.

5. Power to select and appoint, on the advice of appropriate selection committees to be constituted by the Managing Director, all staff against sanctioned posts of which the maximum pay does not exceed Rs. 1,000 per month.

Note 1 : It will not be essential to constitute selection committees for the recruitment of daily-rated staff or monthly-rated staff whose maximum basic salary does not exceed Rs. 50 per month.

Note 2 : (*i*) The Managing Director will be competent to fix the initial pay of a selected candidate at any stage of the sanctioned time scale higher than the minimum in regard to any post which he is empowered by these delegations to create.

(*ii*) The final selection of incumbents of post carrying a maximum pay of more than Rs. 1,000 will rest with the Board and it will be for the Board to allow in suitable cases such advance increments as the Board may in its discretion consider necessary.

(*iii*) In regard to appointments not covered by (*i*) and (*ii*) the Managing Director will, in the initial selection of a direct recruit, have the authority to allow in his discretion not more than five advance increments in any case where the grant of such advance increments may be necessary for securing the services of a suitable candidate.

6. Power to make officiating appointments against leave vacancies and fix officiating salaries in accordance with such rules as may be applicable from time to time.

7. Power of a Controlling Officer in respect of the Managing Director's own travelling allowance bills and those of all personnel under his administrative control.

8. Power to sanction advances of travelling allowance in respect of the Managing Director's own tours and the tours of all staff under his administrative control on official duty.

9. Power to grant advances to staff for the purchase of conveyance subject to budget provision and such rules as may be applicable from time to time.

10. Power to reimburse to an employee expenses incurred by him in obtaining specialist medical help in India with the specific approval in writing of an authorised medical officer of the company including his journey expenses and such consultation fees as may be paid to a private doctor.

11. Power to grant conveyance allowances to officers and staff on such scales as may be approved by the Board.

12. Power to sanction bicycle allowances not exceeding Rs. 3 per month to all staff under the Managing Director's administrative control drawing a pay of not more than Rs. 300 per month.

13. Power to suspend, punish, discharge or dismiss any employee of the Company for good and sufficient reasons and on departmental proceedings. All cases of discharge or dismissal or personnel drawing more than Rs. 1,000 per month as a salary should be reported by the Managing Director or to the Board for information.

14. Power to terminate the services of any employee of the Company in accordance with the terms of his contract.

15. Power to abolish any temporary post.

16. Power to decide any question of leave to be earned by an employee while on deputation abroad in the interest of the Company.

17. Power to declare stores as surplus or unserviceable. Power to order the disposal of stores so declared if their book value does not exceed ten thousand rupees.

18. Power to sell stores to private parties for full value plus a fair addition for handling and storage charges, if incurred. In suitable cases Managing Director would be competent to waive or reduce handling and storage charges.

19. Power to waive compensation for loss due to the failure of a contractor in all cases where the Managing Director is competent to enter into contracts by virtue of the delegation made to him under para 2.

20. Power to order reappropriation of buildings, that is, the use of a group of buildings or a building or a portion thereof for any purpose other than that for which they/it were/was constructed.

Note : All orders of reappropriation passed by the Managing Director shall be put at a meeting of the Board at the earliest opportunity.

21. Power to order demolition of temporary structures or their sale for demolition.

22. Power to classify factory quarters as suitable for one or more individuals of specified ranks.

NOTES

23. Power to sanction reduction or remission of rents (inclusive of rents for service installations) of buildings:

(*i*) rendered wholly or partially unsuitable; or

(*ii*) occupied by charitable or religious or educational institutions.

24. Power to rent, during the construction period, accommodation for all purposes other than purposes of residential accommodation.

25. Power to sanction petty ex-gratia payments of a non-recurring nature not exceeding Rs. 500 in any individual case subject to a total limit of Rs. 10,000 in any financial year.

26. Power to fix rates of rent for shops or business premises; and rent for Company quarters occupied by private individuals or contractors employed on the work of the Company subject to the condition that in no case should the rent fixed be less than the standard rent of the concerned building calculated in accordance with Fundamental Rule 45B.

27. Power to fix hire charges for mobile equipment and machinery.

28. Power to fix hire charges of vehicles and sanction reduction or remission where necessary.

29. Power to execute contracts, deeds, instruments and assurances of property and in particular:

(*i*) all service agreements;

(*ii*) security bonds for the due performance of their duties by Company servants; and

(*iii*) leases of houses, lands or other immovable property.

Note : This power will cover power to sanction ferry ghats, trees, fishing tanks, grass, gravel, weekly markets, etc. etc.

30. Power to sanction, subject to an annual limit of Rs. 20,000, payment of travelling allowances as suitable rates in favour of experts, consultants, candidates for interview, etc.

31. Power to sanction on recurring grants to cultural and charitable local institutions not exceeding Rs. 2,000 per year.

32. All powers of a head of a department under the Fundamental *cum* Supplementary Rules, the General Financial Rules and General Provident Fund Rules and the Contribution Fund Rules so long as these rules remain applicable to the Company.

Note : This delegation is without prejudice to any of the specific delegations made to the Managing Director.

33. Power to institute, conduct and defend any legal proceedings by or against the Company or its officers in connection with the affairs of the Company.

34. Power to refer any claim or demands not exceeding Rs. 25,000 (other than one arising out of an industrial dispute) by or against the Company to arbitration, and observe and perform the awards.

35. Power to make and give receipts, releases, and other discharges for money payable to the Company and for the claim and demands of the Company.

36. Power to sub-delegate to subordinate officers specific delegations made to the Managing Director.

APPENDIX F

LABOUR-MANAGEMENT CO-OPERATION

1. Conclusions/Recommendations of the Seminar on Labour-Management Co-operation held at New Delhi.

2. Functions of the Council of Management at Hindustan Machine Tools Ltd.

3. Functions of the Council of Management at Hindustan Insecticides Ltd.

4. Agreement between the Hindustan Insecticides Ltd. and their union.

(1) CONCLUSIONS/RECOMMENDATIONS OF THE SEMINAR ON LABOUR-MANAGEMENT CO-OPERATION HELD AT NEW DELHI ON THE 31st JANUARY AND 1st FEBRUARY, 1958.

The Seminar considered the various problems concerning the Constitution, functions, and administration of Joint Councils and its conclusions/recommendations on the various items were as follows :

I. SIZE OF THE JOINT COUNCIL

(1) The Joint Councils to be effective and manageable should consist of equal number of representatives of management and employees, not exceeding twelve in all. In the case of smaller undertakings, however, the membership should not be less than six.

(2) The quorum should be four, two on each side.

(3) Decisions should be taken unanimously.

II. REPRESENTATION TO DIFFERENT DEPARTMENTS, ETC.

(1) As one of the essential criteria for the formation of Joint Councils is that the undertaking should have a well-established and strong trade union functioning, the rule should be—

(*a*) where there is a representative union registered under a statute, that representative union should nominate the employees' representative on the Council;

(*b*) where there is no law for the registration of unions as representative unions, but there is only one union well-established, that union should nominate the employees' representative on the Council;

(*c*) where there are more than one well-established and effective unions, the Joint Council should be formed when the unions among themselves agree as to the manner in which representation should be given to the employees.

(2) There should be no bar to the members of the supervisory and technical staff being nominated as employees' representatives on the Council.

(3) Employees' representatives should be employees themselves; but, if the trade union so feels, it can appoint non-employee members to the extent of not more than 25% of its quota. If the employers have no objection, the number of non-employee members may be raised to 2.

(4) The Joint Council should be set up at the unit level, where there are a number of departments in an undertaking, having separate identity of their own, the Joint Council may set up subsidiary Departmental Joint Committees to deal with the problems at the

departmental level and also to secure proper and effective functioning of the Joint Council itself. Where there are a number of units under the same management in the same area having separate Joint Councils of their own, a Central Joint Council might also be established for the group of undertakings.

(5) The Ministry of Labour might request the Ministry of Finance to agree to the formation of Joint Councils in the Life Insurance Corporation of India; for this purpose, a zone may be treated as a unit.

(6) The Ministry of Labour might request the Ministry of Communications to include not only the Posts and Telegraphs Workshops (as recommended by the Sub-Committee on Worker Participation in Management and Discipline in Industry), but also other units functioning under the P & T Department.

III. OFFICE-BEARERS OF THE JOINT COUNCILS

(1) The question of procedure for appointing a Chairman and a Vice-Chairman should be left to the Council itself.

(2) In case the Joint Council fails to come to an agreement on the above, the offices of Chairmanship and Vice-Chairmanship should be made rotating. Again, if for one term the Chairman is selected from the employers' side, the Vice-Chairman should be from the employees' side and vice versa.

(3) The term of office of a Chairman and a Vice-Chairman shall be one year and that of the Council shall be two years.

(4) There may be two Joint Secretaries, one from the employees' side and the other from the employers' side, both having equal status. They may be elected by the members of the Council from among themselves.

(5) The employers should provide such secretariat and other assistance as may be necessary for the smooth and efficient functioning of the Joint Councils. If the employees' representatives agree, the Labour Welfare Officer of the Unit may be associated with Joint Council for purposes of Secretariat work, *e.g.*, circulation of minutes, notes, etc.

IV. CONSTITUTION OF SUB-COMMITTEE

(1) It is desirable to appoint Sub-Committees.

(2) For welfare activities, etc., a standing Sub-Committee may be appointed.

(3) For other specific points, Ad-hoc Sub-Committees may be formed.

(4) These Sub-Committees shall submit their report to the Joint Council.

(5) There should be a parity of employer-employee representation on the Standing Sub-Committees. On the Ad-hoc Sub-Committees, however, parity need not be insisted upon.

(6) The Sub-Committees might also include in their membership, persons other than members of the Joint Council.

(7) The Sub-Committees shall be working under the general supervision and guidance of the Joint Council. Reports made by the Sub-Committees will be considered by the Joint Council which will take the ultimate decisions.

(8) The agenda for the Joint Council meetings should be prepared and circulated in good time so as to give sufficient publicity to it amongst the employees and invite points for discussion from them. The preparation of the agenda should be the primary

responsibility of the Chairman who might make such arrangements as may be necessary for this purpose.

V. SCHEDULE FOR THE MEETINGS OF THE JOINT COUNCILS

The periodicity of the meetings of the Council is essentially a matter to be decided by agreement by the Council itself. The Council should, however, meet at least once a month.

VI. MINIMUM QUALIFICATIONS PERTAINING TO EDUCATION, ETC.

No qualifications should be laid down for membership of the Council. The parties are expected to nominate persons who have sufficient knowledge and understanding and who are in a position to deliver the goods.

VII. LIAISON BETWEEN THE JOINT COUNCILS AND THE MINISTRY OF LABOUR AND EMPLOYMENT

The Government of India should make a definite arrangement for liaison between the Joint Councils and the Ministry of Labour and Employment by designating a separate cell for the purpose and give it all facility. Adequate arrangements should also be made to associate State Governments with the working of the Joint Councils in their respective areas.

VIII. GUIDANCE FROM PANEL OF EXPERTS

Having regard to the fact that the experiment is initiated at a few places in the initial stage, an All-India panel be appointed composed of persons (*a*) who are nominated by organisations of employers and employees, (*b*) whom the organisations consider suitable for guiding Joint Councils (*c*) who are willing to undertake this responsibility. The advice of the experts shall not be binding on the Joint Councils.

IX. TRAINING PROGRAMMES IN UNITS EXPERIMENTING WITH WORKER PARTICIPATION IN MANAGEMENT

The representatives of both management and workers on the Joint Councils should continuously keep in mind their joint responsibilities and rights. Towards this end, it should be necessary to ensure that they acquire the requisite attitude and background. Education of a general nature, especially in the issues relating to the satisfactory working of an enterprise must be imparted. A programme for such education should be carried on through different agencies. The representatives of management should be persuaded to actively participate in professional management associations. The trade unions may undertake the education of the workers. The workers' education scheme which is to be launched shortly by the Government of India must devote special attention to this aspect of labour-management relations. The Joint Councils at the unit level should also consider the possibility of organising the Joint education of all the members of the council.

X. DISSEMINATION OF INFORMATION TO WORKERS

The Joint Council should have the right to receive information on the various subjects outlined under Clause 6 of the Model Agreement. All arrangements should be made for documentation and dissemination of information to members of the Joint Councils as early as practicable. The technical details in this connection should be worked out. On certain specific matters, information should be given every quarter. The right to recieve information also includes the right of discussion. The undertaking having a Joint Council shall also establish a library and a reading room.

XI. INFORMAL MEETINGS

All efforts should be made to increase informal contacts between the members of the Joint Council and top official of both sides, namely, management and the trade union.

The Seminar also discussed other related issues. The conclusions thereon were as follows :

A. *Joint Councils and Works Committees*

(1) Since Joint Councils are working at the policy level, they can function separately without encroaching upon the functions of the Works Committees.

(2) Where Works Committees are already working in units where Joint Councils are to be set up the Works Committees shall continue.

B. *Responsibility of the Council*

(1) The Joint Council shall exercise supervisory, advisory and administrative functions on matters concerning safety, welfare etc., as have been indicated in the Model Agreement though the ultimate responsibility shall rest with the management.

(2) The unanimous decisions of the Council should be implemented without any delay. If they are not implemented in time, the reasons should be given for the delay.

(2). FUNCTIONS OF THE COUNCIL OF MANAGEMENT

Broad details of the functions of the Council of Management established in the *Hindustan Machine Tools (P) Limited* in September 1958 are as under :

(*a*) to improve the working and living conditions of the employees;

(*b*) to improve the productivity of the Company;

(*c*) to encourage suggestions from the employees;

(*d*) to assist in the administration of labour laws, rules, standing orders and agreements as between the company and the employees;

(*e*) to create in the minds of the employees a live sense of participation in management; and

(*f*) to serve generally as an authentic channel of communication between the Company and the employees.

The Council shall be consulted by the Company on matters relating to :

(*a*) the general administration of standing orders of the Company and amendments thereto whenever required;

(*b*) the introduction of new methods of production and manufacture involving re-deployment of men and machinery;

(*c*) closure, reduction or cessation of Company's operation.

The Council shall also have the right to receive information, discuss and offer suggestions relating to :

(*a*) general economic situation of the Company;

(*b*) the state of the market, production and sales programmes of the Company's products;

(*c*) organisation and general running of the Company;

(*d*) circumstances affecting the economic position of the Company;

(*e*) manufacturing methods and working processes of the Company;

(*f*) the annual balance sheet, profit and loss account and connected documents of the Company and explanations thereto;

(*g*) long-term plans for expansion, re-deployment of men and machinery and other matters of like nature,; and

(*h*) such other matters as may be agreed upon.

NOTES

The Council shall be entrusted with responsibility in repect of matters relating to :

(*a*) administration of welfare measures;

(*b*) supervision of safety measures;

(*c*) operation of vocational training and apprencticeship schemes;

(*d*) preparation of schedules of working hours, breaks during working hours and holidays;

(*e*) payment of rewards by the Company for valuable suggestions received from the employees; and

(*f*) any other matter as may be agreed upon.

The working of the Council shall as far as possible be in consonance with the recommendations of the Seminar on Labour-Management Cooperation, organised by the Ministry of Labour, Government of India, and held at New Delhi on 31st January and 1st February, 1958. It is hoped that the Council of Management will set an example for Joint Labour-Management Cooperation in the successful working of the factory.

3. FUNCTIONS OF THE JOINT MANAGEMENT COUNCIL

Hindustan Insecticides Ltd.

I. It would be the endeavour of the Council :

(*a*) to improve the working and living conditions of the employees;

(*b*) to improve productivity;

(*c*) to encourage suggestions from the employees;

(*d*) to assist in the administration of laws and agreements; and

(*e*) to serve generally as an authentic channel of communication between the management and the employees.

II. The Council would be consulted by the Management on matters such as:

(*i*) The administration of standing orders and their amendment when needed;

(*ii*) Retrenchment;

(*iii*) Rationalisation;

(*iv*) Closure, reduction in or cessation of operators.

III. The Council will also have the right to receive information on:

(*i*) General economic condition of the concern;

(*ii*) The state of the market, production and sales programme;

(*iii*) Organisation and general running of the Undertaking;

(*iv*) Circumstances affecting the economic position of the Undertaking;

(*v*) Methods of manufacture and work;

(*vi*) The annual Balance Sheet and Profit and Loss statement and connected documents;

(*vii*) Long-term plans for expansion, etc.

IV. The Council would be entrusted with administrative responsibility in respect of:

(*i*) Administration of welfare measures;

(*ii*) Supervision of safety measures;

(*iii*) Operation of vocational training and apprenticeship schemes;

(*iv*) Preparation of schedules of working hours and of holidays;

(v) Payment of rewards for valuable suggestions received from employees.

Note : All matters such as wages, bonus, etc., which are subjects for collective bargaining would be excluded from the scope of the council. Individual grievances would also be so excluded.

(4) AGREEMENT BETWEEN THE HINDUSTAN INSECTICIDES LTD. AND THEIR UNION.

AN AGREEMENT MADE this 30th day of September, one thousand nine hundred and fifty-nine between HINDUSTAN INSECTICIDES PRIVATE LIMITED, a Company incorporated under the Indian Companies Act, 1913, having its registered Office at Rohtak Road, New Delhi-15, (hereinafter called the 'Company' which expression where the context so admits shall include its successors and assigns) of the one part and HINDUSTAN INSECTICIDES EMPLOYEES UNION (Registered No. 447) duly registered under the Indian Trade Unions Act, 1926, having its Registered Office at 15A/7, W.E.A., Karolbagh, New Delhi (hereinafter called the 'Union' which expression where the context so admits shall include its successors and assigns of the other part).

WHEREAS the Company and the Union appreciate that an increasing measure of association of the employees of the Company with the management of the Company's work is desirable and would help in:

(a) promoting increased productivity of the Company for the general benefit of the Company, the employees and the country in general;

(b) imparting to the employees of the Company a better understanding of their role and importance on the working of the Company and in the process of production;

(c) the satisfaction of the urge of the employees for self-expression.

It is hereby agreed to between the parties hereto as follows :

(1) There shall be a Joint Council (hereinafter called the COUNCIL) which expression shall be constituted in accordance with the provision contained in Appendix 'A' to this agreement. The Council shall consist of six members, three being representatives of the Company and three of the employees for the time being.

(2) The Council shall endeavour :

(a) to improve the working and living conditions of the employees;

(b) to improve the productivity of the Company;

(c) to encourage the suggestions from the employees;

(d) to assist in the administration of labour laws, rules, standing orders and agreements as between the Company and the employees;

(e) to create in the minds of the employees a live sense of participation in management; and

(f) to serve generally as an authentic channel of communication between the Company and the employees.

(3) The council shall be consulted by the Company on matters relating to:

(a) the general administration of standing orders of the Company and amendments thereto whenever required;

(b) the introduction of new methods of production and manufacture involving re-deployment of men and machinery;

(c) closure, reduction in or cessation of Company's operations.

NOTES

(4) The Council shall also have the right to receive information, discuss and offer suggestions relating to :

(*a*) general economic situation of the Company;

(*b*) the state of the market, production and sales programmes of the Company's products;

(*c*) organisation and general running of the Company;

(*d*) circumstances affecting the economic position of the Company;

(*e*) manufacturing methods and working process of the Company;

(*f*) the annual balance sheet, profit and loss account and connected documents of the Company and explanations thereto;

(*g*) long-term plans for expansion, re-deployment of men and machinery and other matters of like nature, and

(*h*) such other matters as may be agreed upon.

(5) The Council shall be entrusted with responsibility in respect of matters relating to :

(*a*) administration of welfare measures;

(*b*) supervision of safety measures;

(*c*) operation of vocational training and apprenticeship schemes;

(*d*) preparation of schedules of working hours, breaks during working hours and of holidays;

(*e*) payment of rewards by the Company for valuable suggestions received from the employees; and

(*f*) any other matter as may be agreed upon.

(6) The working of the Council shall as far as possible be in consonance with the recommendations of the Seminar on Labour-Management Co-operation, organised by the Ministry of Labour, Government of India, and held at New Delhi on the 31st January and 1st February 1958, more particularly stated in Appendix 'B' to those present.

(7) The agreement shall come into operation the day and the year above written. It shall continue for a period of two years and shall be renewed for such further term as may be mutually agreed upon between the parties hereto.

(8) Notwithstanding anything herein contained, either party to this agreement may terminate this agreement giving to the other three months' notice in writing.

(9) In the case of any consistency among the provisions of this Agreement, Appendix 'A' and Appendix 'B' attached hereto, the provisions of this Agreement shall prevail over Appendix 'A' and 'B' and Appendix 'A' shall prevail over Appendix 'B'.

(10) All matters relating to wages, bonus, etc., which are subjects for collective bargaining shall be excluded from the scope of the Council. Individual grievances shall also be excluded from its scope.

IN WITNESS WHEREOF the parties hereto have affixed their hands on the day and year first above written.

Signed by :

PRESIDENT OF THE UNION	MANAGING DIRECTOR
GENERAL SECRETARY OF THE UNION	SECRETARY/ACCOUNTS OFFICER
SECRETARY OF THE UNION	WORKS MANAGER
Representing the Hindustan Insecticides Employees' Union.	Representing the Hindustan Insecticides Private Limited.

APPENDIX G

Profit and Ad-hoc Bonus for 1957-58 in some Public (Industrial) Enterprises.

(Rs. in lakhs)

Sl. No.	*Name of Enterprise*	*Net Profit*	*Bonus Distributed*
1.	Sindri Fertilizers & Chemicals Ltd.	142.82	16.00
2.	Hindustan Cables (P) Ltd.	10.10	0.17
3.	Hindustan Antibiotics (P) Ltd.	33.43	1.07

(Source—Progress Report of Public Sector Projects and Undertakings for the year ending 31-3-1959, Ministry of Commerce and Industry.)

New India Press, New Delhi

SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES IN JAPAN[1]

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Paper No. 27

1. This paper is prepared by Mr. H. Nakajima (Chief of Research Section in the Ministry of Finance, Government of Japan), and Mr. K. Yamamura of the same Research Section, with minor editorial changes made by the ECAFE secretariat.

ADMINISTRATIVE ORGANIZATION OF PUBLIC INDUSTRIAL ENTERPRISES

The Government established a separate ministry (the Ministry of Industry) for the purpose of operating and managing public industrial enterprises. This agency was the nucleus for promotion of modern industry and all State-operated factories except munitions plants were placed under its direct supervision.

The public industrial enterprises, which were vested with many privileges in their operation as compared with private industries in general, were authorized, as in general administrative agencies, to exercise compulsory powers for the purposes of acquisition of land and equipment, collection of rates and charges and other economic activities necessary for the conduct of business. The State-operated enterprises in this period were known as "government enterprises" (kangyo).

DISPOSAL OF PUBLIC INDUSTRIAL ENTERPRISES TO PRIVATE OWNERSHIP

The policy of promoting industrialization through government operation of enterprises was gradually shifted in the direction of industrial "laissez faire", and the factories under government operation were successively sold to private ownership.

This shift in the policy is accounted for by the following factors : (1) The neglect of commercial practices caused large operating losses to public industrial enterprises, resulting in the shortage of funds necessitating increased issues of government securities, which added to the inflationary pressures. Since an overhauling of government finances was considered necessary at that time, the disposal of State-operated enterprises represented one such step for improvement of finances. (2) Increased capital accumulation within the private sector as also the growth of the private entrepreneurial class, following the example of government undertakings led to increased investments in modern industries. Those government enterprises which competed with private business were transferred to private hands. It may be noted that the pressures of private industrialists also spurred the disposal of these enterprises. The public industrial enterprises that were transferred to private ownership included industries in the fields of mining, agricultural, shipbuilding, textiles and chemicals (except factories producing military supplies). From this time onwards the industrial policy of Japan began to follow the course of protection and encouragement based on the principle of the industrial "laissez faire".

ESTABLISHMENT OF MODERN INDUSTRY AND PUBLIC INDUSTRIAL ENTERPRISES (1900-1945)

The tempo of industrial development has been rapid in Japan, compared with that of many advanced industrial countries. In this development of modern industry public industrial enterprises have played a crucial role. Nevertheless, various backward characteristics of the Japanese economy were to remain still noticeable even in the period when modern industries came to be firmly established. The most significant features were the lack of development in the heavy industry, the higher rate of profits in the branch of commerce than that of industry, and the low technical level in production. In the advanced industrial nations of the West, as soon as modern industry was established and the principle of "laissez faire" was adopted industries were placed in the hands of private owners, and only the industries of special public character, such as transportation and communications, were left as public enterprises, but in Japan many other public enterprises were still to remain under State operation so that economic development might not be retarded.

Those major industries which still continued to be operated as public industrial enterprises after the disposal of State-operated factories to private ownership were mainly the following:

(*a*) *Arms manufacturing industry*

The direct State control of arms production in Japan was due partly to the Government's emphasis on defence, but mainly to the immaturity of private heavy industry. Since arms production required large productive equipment and a high level of technology, the operation of military industry was beyond the capacity of the private sector that did not have sufficient resources.

The Government ordnance factories represented the larger heavy industry engaged in all stages of arms production. Even after considerable progress had been attained by the private heavy industry, the Government factories maintained an overwhelming superiority in output as compared to private enterprises. It may be said that the heavy industry in Japan developed with the Government ordnance factories as its core.

(*b*) *Iron and steel industry*

The Government established a large steel mill under its direct operation (starting production in 1901) in order to accelerate industrialization in Japan and bring the economy to a self-supporting status as quickly as possible. This iron and steel enterprise, supported by the Government with annual allocations out of fiscal funds for expansion of productive facilities, produced the bulk of the domestic output. As a result, the imports of iron and steel products declined greatly. The domestic output of iron and steel, which had been equal to one-fifth of the country's total imports in value before the establishment of the factory, considerably exceeded imports under this item after the factory came into operation. Heavy industrial production came to be firmly established in Japan only after the basic sector of production, such as the iron and steel industry, had been sponsored by the State.

(*c*) *Transportation and communication*

Communication s rvices, such as the postal service and telegraph and telephone services, were from the beginning taken up as public enterprises. As to the railways, only a part of trunk lines was operated by the Government in the early years, and private railways also made considerable advance. The Railways Nationalization Law of 1906 nationalized all main trunk lines.

The indispensable condition for the development of modern industry is the rapid formation of a domestic market. It was, therefore, necessary to quickly complete and expand transportation and communication services, the construction of which required, however, vast capital investment. The policy of nationalizing transportation and communication services was followed for the purpose of facilitating co-ordinated construction of these facilities and expansion of military installations.

(*d*) *Forestry*

In Japan, the Government owned vast tracts of land and forests which constituted the largest properties of the Meiji Government and the Imperial Household. However, the development of industries coupled with the expansion of defence production led to increased demand for lumber to be used for construction of plants, vehicles, shipbuilding and wood products. To meet such demand the Government launched operation of State forests with a view to stabilizing the price of lumber by controlling production.

(*e*) *Tobacco (including salt and camphor) monopoly*

The manufacture and sale of tobacco by the Government was carried on solely for the purpose of obtaining fiscal revenue. The sale price of monopoly goods was the cost plus profit including an

excise tax. The size of profit was influenced to a great extent by the fiscal policy of the Government. The manufacture of salt and camphor was also controlled by the Government, which also monopolized the sales of these products. The sale of salt and camphor later became more important for industrial purposes.

(f) Printing and minting

The printing and minting of currency was done by the Government solely for administrative purposes. Competent government agencies were established to take charge of this activity as well as the printing of government publications and the manufacture of decorations and medals.

OPERATION OF PUBLIC INDUSTRIAL ENTERPRISES

Prior to the First World War the above mentioned enterprises were generally managed and operated directly by the Government which set up special banks under its special supervision. Government enterprises in the industrial field were mostly placed under direct governmental operation. Some of the enterprises were prohibited by law from being operated by private interests, *e.g.*, the postal service, the monopoly enterprises, etc.

Forms of operation of state-owned enterprises are characterised by the following features: First, the management and organization of such an enterprise is part of general administrative plan of the organization, and the provisions of the general private laws are not applicable to its organizational discipline. The leader of the management is a member of the Cabinet as a minister, and the managing staff are government officers as a rule. Various material factors needed for the operation of enterprises are subject to special regulations under the public law, quite different from the private law.

Second, its business accounting is subject to the budget and the accounting system of the State. The budget of the operating agency, like the ordinary budget of the State, showed totals of receipts and expenditures and had to be approved by the Diet. The managers administer the undertaking according to the budget determined at the beginning of the year. As receipts and expenditures are entered into the books separately, unlike the accounting practice in the private business, there are no organic relations between these two entries. In the accounting system of Japan special accounts for government enterprises were set up distinctly from the general administrative accounts. In a special account there are established a fixed capital account and a working capital account. The accounting of public industrial enterprises by means of the special account system generally led to the loss of autonomy on the part of the enterprises involved, being easily influenced by the general fiscal programme. That is to say, the profits of enterprises had to be incorporated into the general fiscal revenue, while funds required for the expansion, construction and improvement of enterprises are to be found from the revenue of the general account. Government enterprises, unlike private enterprises, could not finance expansion by means of retaining profits or by issuing debentures.

This mode of operation was followed as public industrial enterprises, despite their heavy capital requirements for the purpose of expanding plant and equipment, failed to attract capital. The Government had to necessarily divert tax receipts or proceeds from government security issues to finance such expenditures. However, the system that made the operation of public industrial enterprises dependent upon the general fiscal programme was also to be responsible for the inefficient operation of public industrial enterprises. As the growth of the private economy since the First World War had exceeded the progress of public industrial enterprises, more and more attention came to be given to the autonomy of public industrial enterprises. In the case of those public industrial enterprises which were administered through the special accounts within the general fiscal framework,

practices such as the availability of profits from the special accounts for financing improvement of equipment, the issuing of government securities charged to the special accounts and the depreciation system were adopted.

The tendency of public industrial enterprises to gain autonomy in operation led to the emergence of public industrial enterprises in the form of corporations subscribed to by the Government, in addition to the enterprises under its direct operations.

OPERATION OF PUBLIC INDUSTRIAL ENTERPRISES UNDER THE CORPORATE FORM

The public industrial enterprises operated under the corporate form greatly increased in number in the period between the First and Second World War. The enterprises of this type increased especially during the Second World War when strong economic control was enforced. Some of them were hitherto State-operated enterprises which had been changed to the corporate basis (the iron and steel factory was converted into a corporation in 1934), and others were those private enterprises which were converted into public enterprises on account of their public importance.

Enterprises operated through the establishment of special corporations include international communications, air service, colonial development and industries such as iron and steel, electric generation and transmission, mining exploitation, and so on. In establishing such a corporation, the Government appoints an establishment committee to take charge of all affairs. The governor and vice-governor, or the president and vice-president, who are to be central figures in the management of business are appointed directly by the Government. As to the appointment of other directors the Government also reserves supervisory authority.

A comptroller is appointed to supervise the business, and he has a voice in the general meeting of shareholders and all other conferences in the corporation. As it is provided in the law that the Government should subscribe to a half or part of the capital of the corporation as a shareholder, the Government has a dominant influence in the voting of the corporation.

Another form is the incorporation of an enterprise as an ordinary joint-stock company under the commercial code. In view of the public importance of the enterprise the persons who have an active role in the enterprise are required to have certain qualifications. Enterprises of this type which are organized as purely private corporations, are subject to government intervention to a lesser extent than a special corporation. Such an enterprise which is subject only to regulations applicable to the control of industrial activities, was increasingly strengthened under the war-time economy, and the Government refrained from active supervision with a view to encouraging its activity. In these cases, the Government did not have an overall supervision but only some details concerning each individual undertaking. The most notable case of such supervision is the Munitions Company Law of 1943 enforced during the Second World War. This law provided that the companies producing essential military goods should be placed under a special government provision, receiving almost the same treatment as that given to the plants administered by the military departments.

GOVERNMENT INDUSTRIAL UNDERTAKINGS AND INDUSTRY IN THE POST-WAR PERIOD

Since the end of the Second World War, all arms industries in Japan have been converted into other types of industry, and the State-operated factories have been disposed of to private ownership. Consequently, the industrial enterprises—especially manufacturing enterprises—operated directly or indirectly by the Government have been further reduced in number. The undertakings still under Government operation in the

industrial field at present are printing notes, minting of coins and the manufacture of tobacco and alcohol (monopoly enterprises).

In the process of industrial rehabilitation after the Second World War, the Government itself launched a programme of industrial reconstruction, but it avoided operation of industrial enterprises in any form on its own, and left all enterprises to the private sector with indirect aid from the Government. One of the steps undertaken was to supply industrial enterprises with funds through fiscal and financial measures. The Government established public financial institutions, to which government funds were to be loaned. These institutions, which were backed by national credit, were to make to private enterprises, loans necessary for production beyond the limit allowed by profit consideration of usual business operations. To raise the required funds the Government organized, as public enterprises, such financial undertakings as postal savings, national insurance services which have played major roles in the post-war years. The funds thus raised are important sources of funds available for government investment.

Second, the Government carried out construction and expansion of public facilities, and operated in the fields of transportation and communications. Government operations in these fields, which were carried on even in pre-war days, have become more extensive since the war. It is also noteworthy that the development of electricity has been newly added to the group of government undertakings since the war. In short, the object of the existing public enterprises is not to operate industrial enterprises by themselves, but to provide facilities making direct and indirect contributions to industrial enterprises so that the industrial capacity in the country as a whole may be enlarged.

ADMINISTRATIVE FORMS OF PUBLIC ENTERPRISES

A new form of organization has been introduced into the administration of public enterprises of Japan since the end of the war. The chief aim of this new administrative organization has been to give public enterprises a large degree of autonomy in their management. The most notable examples of this change are the adoption of business accountability —self-supporting, self-financing and self-disposal of surplus revenue—in public enterprises and the establishment of the public enterprise agency "Kosha".

The expansion of autonomy of public enterprises has the following implications: First, increased autonomy, which involves freedom of the administration from dependenee upon the civil service organization, and rationalization of management, preventing inefficiency of operations. Secondly, it means relaxation of control by the Diet and reduces not only the restrictions imposed on the budget by the Diet, which hamper business activities of public enterprises, but also makes the administration of public enterprises proof against the effects of political influences, opening the way to the establishment of a direct joint administrative regime of government and management.

Although the autonomy of public enterprises has been increased in the aspect of organization, as mentioned above, the existing public enterprises in reality are yet to achieve autonomy in operation, independent from the State administration. Public enterprises have had only their administrative organization, separated to some degree from the general government organization, and their business operations are subject to a strict administrative supervision by the Government. Public enterprises, because of a very strong administrative supervision by the Government, still remain subordinate to Government administration, acting as agencies to enforce State policies. The immediate reason that led to the adoption of business accountability was to minimize the expenditures from the general fiscal funds to cover the deficits of public enterprises. The adoption of business

accountability has, therefore, not necessarily led to complete independence from the financial control of the Government, and to subsequent application of the principles of general business accounting as such.

PUBLIC ENTERPRISES UNDER THE DIRECT OPERATION OF THE GOVERNMENT

The State forest service, currency printing and minting, and alcohol monoply enterprises are directly administered by the Government. Competent parts of the Government administrative organization are responsible for their administration. The budget of their enterprises is subject to official procedures, and deliberated on by the Diet. It is only in this respect these enterprises are similar to enterprises covered by the general account. The special accounts, which are as a rule "administered on a commercial basis", are based on business accountability. Their method of accounting is not on a cash basis as that of the general account, but on an accrual basis with respect to profit and loss in estimating assets, as in business accounting. The operation through the special accounts reflects commercial operation in accounting control.

PUBLIC ENTERPRISES UNDER THE AUTONOMOUS CORPORATE FORMS

(*a*) *Public enterprise agency* (*Kosha*)

The public enterprise agencies, which are autonomous juridical persons, are "Kosha" in Japan. This form of business administration came into existence under the administration of the occupation force in the post-war period, and its prototype is found in British and American public corporations. Major public enterprises now managed under the form of "Kosha" are the national railways, telegraph and telephone services and monopoly enterprises, which had been once operated directly by the Government. In addition to the above, the Atomic Fuel Corporation and Japan Broadcasting Corporation (NHK) are also operated by this administrative device.

A "Kosha" or public corporation fully owned by the Government and other public agencies (NHK is an exceptional case where no capital is subscribed to by the Government) is an independent enterprise, engaged in production of goods essential to the life of the people.

The administrative organization of all public corporations except the Japan Monopoly Corporation, is, unlike public enterprises directly operated by the Government, largely based upon "a board of directors" or "management committee". At the time when the "Kosha" was first established the method of electing by the Cabinet members of an "administrative committee" from among the experienced persons of business circles, subject to approval of both Houses of the Diet, was followed. The committee has wide authority, but its democratic character has somewhat been reduced under the recent revisions. The Japanese National Railways adopt the system of "board of directors" which is composed of a president, a vice-president and five to ten directors. In the Nippon Telegraph and Telephone Corporation the administrative committee as such still remains, but the procedure of selecting members from the business circles has been discontinued. The Japan Monopoly Corporation has an administrative council, but this is an advisory body and not a decision-making organ. In the Atomic Fuel Corporation the chief director is the principal figure of its management. The Japan Broadcasting Corporation (NHK) still retains the administrative committee.

All public corporations have as executive officials, a president, a vice-president and directors. The president is appointed by the Cabinet and the vice-president and directors by the president. Such appointments by the president are subject to the approval by the Minister of Transportation in the case of the Japanese National Railways, and with the consent of the administrative committee in the case of the Nippon Telegraph and Telephone Corporation. The Japanese National Railways has an auditing

committee, whose members are appointed by the Minister of Transportation. The Cabinet, the Minister of Transportation and the president have the power to dismiss officials under certain circumstances. The executive officials and employees of these public corporations do not belong to the civil service, but they are regarded as the persons engaged in the public service under the law.

(b) Public enterprises in the forms of "Kodan"

The administrative form with the name of "Kodan" or "Koko" have been started since the end of the Second World War. Kodans established immediately following the war were mostly those which succeeded the functions of wartime economic controls exercised by the "eidans" (management foundations), control associations and the others during the war for the purpose of adjusting serious inequilibrium of demand and supply of goods, and encouraging economic rehabilitation. These organs were abolished after their functions were fulfilled. In the time of a free economy, existing kodans are the public judicial persons which are to execute undertakings that are beyond the initiative of private enterprises, and are managed under a special administrative form which the Government has created for the active promotion of social and economic policies of the country. Therefore, the undertakings operated under Kodan system are, by their nature, rather close to general administrative activities or public welfare services. In this respect, the Kodan is different from the Kosha which stresses operations on a commercial basis. Nevertheless, in conducting business the Kodan, as an autonomous body corporate like a Kosha, is operated on a business basis. Its capital is composed, in full, of subscriptions by the Government and local public bodies. The chief Kodans now in operation are the following:

The Housing Corporation provides on a large scale group residential housing and land in the areas where serious housing shortages exist and makes land readjustments to create new urban areas.

The Aichi Irrigation Development Corporation performs the duties of building large-scale drainage facilities and reclamation of land for farms and paddy fields, with loans from the Government and the World Bank for the purpose of comprehensive development of water resources of the Kiso river system, and the increased production of foodstuffs and other farm products as well as the rationalization of farm management.

The Farm Development Equipment Corporation, also with financial aid from the World Bank, possesses machines of high efficiency to be used for creation and improvement of farmland, loaning these to the State or local public bodies.

The Japan Highways Corporation undertakes new construction, rebuilding, maintenance, repairs and other works on toll roads. The Forestry Development Corporation is responsible for planning the development of unexploited forest resources.

The centre of the administrative organization is the president and not the managing committee. The Housing Corporation has an administrative committee as a deliberative organ, but its power is very weak.

The executive officials of Kodan comprise a president, a vice-president, several directors and supervisors. The president and supervisors are appointed by the competent Minister concerned, and the vice-president and directors are appointed by the president subject to the Minister's approval. Employees come more under civil service than as in the case of a Kosha.

The system of financial control in the Kodan is on a self-supporting basis, but since the Kodan receives subsidies from the State for non-profit-making projects and imposes beneficiary charges on the farmers, accountability is merely formal.

(*c*) *Eidan*

Although many agencies called "eidan" were established during the Second World War, the only enterprise that is now operated under this form is the Metropolitan Rapid Transit Corporation. This agency is a public corporation which operates the subway transit service in the Tokyo Metropolis. Of its total capital of 60 million Yen the National Government subscribes 40 million Yen; the Tokyo Metropolitan Government 10 million Yen. Operating funds are secured by the issue of transit bonds to the extent of ten times the amount of the authorized capital. The re-organization of this agency in 1951, however, limited subscription to its capital, to the Japanese National Railways and the local public bodies, in whose areas the lines of this corporation are operating, thus excluding the direct subscription of the Government and private capital. Originally the president took the leading part in the management, but in the re-organization in 1951 an administrative committee was established to be in charge of management which consists of president, a vice-president, several directors and supervisors, all appointed by the competent Minister.

PUBLIC ENTERPRISES UNDER THE FORM OF SPECIAL CORPORATION

Many enterprises are being operated in recent years under this form. A special corporation is a joint-stock company, but it is established under a special law—unlike ordinary joint-stock companies, which are established according to the commercial law. The subscription of its capital is made jointly by the Government and private interests, and a special corporation, as in ordinary joint-stock company, holds general meetings of shareholders. The existing public enterprises, in the form of special corporation, are the Tohoku Development Co. Ltd., which conducts activities necessary for the development and promotion of industry in the Tohoku district; the Electricity Development Company, Ltd. (electricity generating); the International Telegraph and Telephone Co. Ltd., the Japan Airway Co., Ltd., (civil airline service), and the Patroleum Resources Development Co. Ltd.

GOVERNMENT PROTECTION AND SUPERVISION OF PUBLIC ENTERPRISES

(*a*) *Protection*

Various kinds of protection and privileges are provided for public enterprises by law to help operation of such enterprises. Though such aids are different according to types of management, important ones are as follows:

First, such agencies are in many cases granted privileges to requisition for public service, e.g., the right of eminent domain, to enter and use land, remove obstacles, levy contributions on the beneficiaries, contribution of facilities by the Government and so on.

Second, the right of monopoly for the enterprise is guaranteed by the law, *e.g.*, the postal service, and the monopoly enterprise in manufacture of tobacco.

Third, economic protection. Though the recent tendency is not to grant economic protection except in special circumstances, there is still considerable protection of this kind, which includes the exemption from taxes, granting of subsidies, loans from government funds, guaranteeing of debts etc.

Fourth, there is protection afforded by the penalty law. Special penalties are provided against the violation of the law so as to make possible the safe conduct of public enterprises.

(*b*) *Supervision*

Although the public enterprises in Japan have recognized their autonomy in the operation of their business, they are subjected to strong

administrative controls. General supervision by the competent minister is provided without exception for the management of the Koshas, Kodans and Eidans. A competent minister may give a public enterprise an order necessary for the purpose of supervision over the operation of the enterprise, or if necessary, require a public enterprise to make a report on the state of its operations and its assets, or appoint an officer to examine the state of operations or books and other necessary documents. Such general supervisory provisions are now given considerably broad interpretations. A competent minister has the power of control over the operation in addition to the general supervisory power.

The Kodan and the Japan Monopoly Corporation are subject to approval or consent of the competent minister for implementing their basic business programmes and their enforcement plans. The budget, operating programme and the financing plan, must be prepared to be submitted for the approval of the competent minister before the beginning of the business year. In the case of the Japanese National Railways, certain projects such as the construction of new railway lines are subject to the approval of the Minister of Transportation, and as to the compensations of its employees, payments of special compensation also require the approval of the Minister.

For the operation of public enterprises there are provided, besides the controls by the competent ministers, those by the Minister of Finance who is in charge of the Treasury. The control by the Minister of Finance is not directly exercised, but indirectly through consultations with the competent ministers. The budget, borrowings and bond issues of a Kodan are subject to the approval of the competent minister who in turn has to confer in advance with the Minister of Finance. In the case of a Kosha the budget is submitted to the competent minister, who confers with the Minister of Finance, and after it is decided upon at the Cabinet meeting, it is submitted to the Diet. As to the borrowing and bond issues, the competent minister has to confer with the Minister of Finance. The expression "to confer with" may sound rather modest, but in reality the Minister of Finance exercises strong control over financial matters through the competent minister.

Moreover, the public enterprises are subject to controls by the Diet. Although controls by the Diet are now considerably weakened estimates of the budgeted revenue and expenditure of a Kosha have to be discussed on by the Diet, and finalized accounts are also to be submitted to it. The rates of such services as post, telegraph and telephone, and national railways, and the official prices of manufactured tobacco require the deliberation of the Diet.

Although the legal provisions are not uniform concerning government protection and control for special corporations, the broad common features are as follows: First, the subscription by the Government is provided, and its stock holding is treated on the deferred dividend basis. The exception provided for the legal limit of debenture issue under the commercial law allows a special corporation to issue special debentures to an amount two to ten times as high as the legal limit.

On the side of supervision the executive officials of a special corporation are to be appointed by the Cabinet. Changes in the articles of incorporation, the budget of revenue and expenditure, distribution of net profit and issue of debentures are subject to the approval by the Government. Moreover, the power to dismiss an official from office and the power to annul a resolution voted by the general meeting of shareholders are reserved for the Prime Minister or his competent minister.

New India Press, New Delhi.



SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

PUBLIC INDUSTRIAL ENTERPRISES IN PAKISTAN

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Paper No. 28

PUBLIC INDUSTRIAL ENTERPRISES IN PAKISTAN

By

M. AYUB

Director, Pakistan Industrial Development Corporation

Pakistan started with a purely agricultural economy. Large scale industry was non-existent or of insignificant importance. The considerable amount of industrial progress made during the last 11 years has been the result both of private enterprise and public effort made through the Pakistan Industrial Development Corporation. The PIDC is a novel, if not a unique, institution in this country, for it combines Government initiative and finance with private enterprise. This is evidence by the status of the Corporation, the composition of its Board, the manner in which it operates the range of its activities, and the extent to which it has been successful in attracting private capital to its various ventures.

SCOPE OF PIDC ACTIVITIES

2. The PIDC Act, of which a copy is annexed (Annexure I), received the assent of the Governor-General on 19th April, 1950, but the first Board of the PIDC was not appointed till 12th January, 1952. The Corporation has, therefore, been in existence for nearly eight years. The operations of the PIDC are limited to the 12 industries listed in the schedule to the PIDC Act of 1950, as amended from time to time, namely, jute, paper, heavy engineering (including iron and steel); ship-building, heavy chemicals, fertilizers, sugar, cement, textiles, natural gas, chemicals, pharmaceuticals and dye-stuffs; and development of power from natural gas. The Corporation is also permitted to finance projects which are ancillary to one of the 12 industries listed in the PIDC Act, such as the development of coal mines to ensure adequate supplies of coal for the fertilizer factory at Daukhel or the proposed iron and steel works at Multan.

The PIDC was established primarily with the object of promoting industrial enterprises which other industrialists were either unable or unwilling to undertake, and the policy of the Corporation is to supplement, rather than to displace, private enterprise. The Corporation has, therefore, refrained from setting up industries, even within its Charter, such as, cotton textile mills, which are receiving adequate attention from private investors. Secondly, the emphasis of the Corporation is on the promotion, not the ownership, of industries. Every effort is made to attract private capital into the projects of the PIDC and, where private participation is not forthcoming at the outset, to transfer the completed projects to private management at the earliest convenient opportunity.

The experience of the last eight years indicates that the PIDC has had to take the initiative in promoting industries requiring a heavy initial capital

investment, or which took a long period to construct, or which involved complicated processes requiring high technical knowledge and operating experience. The PIDC has also attempted to rectify the lop-sided industrial development arising from excessive concentration of private industrialists in a few large towns, such as, Karachi, Lahore and Lyallpur in West Pakistan, and Dacca and Chittagong in East Pakistan. In order to ensure balanced economic development of the country as a whole, and to minimise the evils of excessive urbanization, the Corporation has sought to locate its factories all over the country, subject to the availability of raw materials, labour and means of communications.

ORGANIZATIONAL STRUCTURE OF PIDC

3. The PIDC is not a Government Department. It is a statutory Corporation. The extent of Government's control and supervision is limited to the following essential matters :

(*i*) The Chairman and Directors of the PIDC are appointed by Government for a period of three years at a time and serve at the pleasure of the Government. But no Director has been removed from office so far.

(*ii*) The annual budget of the PIDC has to be approved by Government.

(*iii*) All projects of the PIDC require Government approval and have to form part and parcel of the National Economic Plan.

(*iv*) Government's approval is necessary to the terms on which private parties may participate with the PIDC or purchase PIDC projects, and to the sale of PIDC shares below par or market rate.

(*v*) The Corporation may borrow from foreign financing institutions, as well as from Pakistani banks, only with the permission of Government.

(*vi*) The accounts of the PIDC are liable to audit, and the annual report and accounts of the Corporation has to be submitted to Government by a specified date.

(*vii*) The Corporation is guided on questions of policy involving national interest, including commercial and industrial interests, by such directions as the Central Government may issue from time to time. This power has been exercised very rarely, although there is very close liaison between the PIDC and the various Ministries of the Central Government concerned with its activities.

4. In all matters other than those listed in the preceding paragraph, the PIDC is completely autonomous. It hires its own staff and technical consultants, places orders for goods and machinery, supervises the erection and operation of plants, and sells its manufactured goods in the same way as any other private commercial or industrial concern.

The Board of Directors of the PIDC consists of a Chairman and four Directors. The first Chairman was a former General Manager of the East Indian Railways and Industries Secretary to the Pakistan Government. The present Chairman is drawn from public life. Out of the eight Directors appointed since January 1952, only one Director has been a serving Government official, while five Directors have been prominent businessmen, bankers and industrialists serving on the Board of PIDC in an honorary capacity. A number of other prominent businessmen are also Directors of the various companies which have taken over projects initially set up by the PIDC. It would thus be seen that the top management of the PIDC has been drawn from all walks of life. The present Chairman of the Corporation has the rank and pay of a Minister of the Central Cabinet, while the paid

Directors draw the salary attaching to the post of a Secretary to the Government of Pakistan.

MODE OF OPERATION

5. The mode of operation of the PIDC is briefly as follows. After carrying out a preliminary survey, for which the Corporation is provided with a revolving fund, a project report and proforma are submitted to the Ministries of Industries and Finance and the Planning Commission. (The documents sent to Government include all relevant technical, economic and financial data, and supplementary information is furnished on demand.) An effort is made to associate private capital at the outset. If private participation is not forthcomng at that stage, the project is carried out by the PIDC. After the project is ready, the effort to attract private capital or to sell the mill is renewed. If there is no success even at that stage, then the project is converted into a Joint Stock Company and the shares placed on the market, with the managing agency vested in the PIDC.

FINANCING OF PIDC VENTURES

6. The PIDC was set up with an authorised share capital of Rs. 10 million, out of which shares of the value of Rs. 5 million have been issued and subscribed in full by the Pakistan Government. This sum barely covers the cost of the Head Office and Regional office buildings of the PIDC. All the finances for the projects undertaken by the Corporation come from annual budgetary grants of the Central Government, such private capital as the Corporation is able to attract, foreign aid and loans, and working capital obtained from Pakistani banks on normal commercial terms.

The Government budgetary grant now averages from Rs. 150 to Rs. 200 million per year and constitutes the bulk of the capital investment of the PIDC. A substantial part of Government finance is in the form of foreign exchange.

The extent of private participation varies from project to project. It constituted about 35% of the total investment on the 48 projects completed up to 31st March, 1959. The proportion of private capital is, however, much less in the projects now under way.

Part of the private capital has come from foreign investors, notably £ million each in the Sui-Gas Transmission Company contributed by the Burmah Oil Company and the Commonwealth Development Finance Company, and smaller investments by the Inchcape Group in the Star Jute Mills, Khulna, and by Bayers in the Dyes and Chemical Plant at Daukhel.

The total amount of foreign aid and loans received by the PIDC up to 31.3.59 has been approximately Rs. 115 million. The United States provided almost all the foreign exchange required for the Pak-American Fertilizer Factory, Daukhel, and for the mechanization of the Makerwal Collieries, while Canada financed the construction of the Maple-Leaf Cement Factory, Daukhel. Aid from New Zealand has been utilised for meeting the foreign exchange requirements of the Zeal-Pak Cement Factory, Hyderabad, and the Zeal-Pak Sugar Mill, Diwanganj. The World Health Organization and UNICEF—two of the specialised agencies of the United Nations—have provided the plant for the D.D.T. factory at Nowshera and the Penicillin Factory at Daukhel. Technical Aid has been received from the United States, the Colombo Plan countries and the United Nations.

The World Bank provided a loan of $US million for the Sui-Gas Transmission Company and a loan of $US 4.2 million for the Karanaphuli Paper Mill. The PIDC has also utilised suppliers' credits for purchase of two big fertilizer factories from France and Japan, and a barter deal with Czechoslovakia for purchase of a kiln to expand the cement factory at Daukhel.

Working capital for PIDC projects is occasionally provided by Government in its initial investment, but more frequently operational expenses are met out of cash credit loans obtained from Pakistani banks on the security of raw materials, stores and finished goods. Occasionally, the PIDC has advanced loans to its associates to tide over temporary financial difficulties.

ACHIEVEMENTS OF THE PIDC

7. The achievements of the PIDC are writ large on the map of Pakistan, from Chandraghona in the East to Quetta in the West and Chitral in the North. During the first seven years of its existence the Corporation has been responsible for setting up 48 industrial projects at a total investment of Rs. 954 million, while nine projects, which were under construction on 1st April, 1959, are estimated to cost a little over Rs. 606 million. A statement is attached giving the list of projects completed up to 31st March, 1959, the extent of Government and private investment, the value of production of each mill and the value of exports during the years 1957-58 and 1958-59 (Annexure II). Another statement giving the list of projects under way as on 31st March, 1959, the estimates capital investment, and the scheduled date of completion will be found at Annexure III.

It will be observed that the annual production of the completed projects during 1958-59 was estimated at approximately Rs. 470 million, of which goods worth Rs. 134 million were exported. The production and volume of exports will be higher during the financial year 1959-60 mainly on account of the increased production of some of the projects which were under construction on 31st March, 1959.

The progress made towards the development of individual industries is summarised in the succeeding paragraphs.

JUTE INDUSTRY

8. Starting from scratch, the PIDC has been responsible for the setting up of 14 jute mills with a loomage of 7,750. The annual production in 1958-59 amounted to 175,309 tons, valued at approximately Rs. 219 million, while exports were of the value of Rs. 133.6 million. Total production during the current financial year ending 30th June, 1960, is expected to rise to 220,000 tons, of which 160,000 tons are likely to be exported. The jute industry has had its full share of teething troubles, but since October 1958, it has enjoyed the blessings of industrial peace, efficiency and production increased as workers gained in skill and experience, and the introduction of the Export Bonus Scheme has greatly improved the ability of Pakistani jute manufacturers to compete in the international market.

The jute industry has attracted a considerable amount of private capital. Out of the total investment of Rs. 236.89 million in all the fourteen jute mills promoted by the PIDC, the Corporation's investment amounts to only Rs. 84.52 million. Twelve of the fourteen jute mills are being managed by private parties, while the remaining two mills (namely : Star and Platinum) are being managed by the Inchcape Group on behalf of the PIDC.

During the second Five Year Plan, it is hoped to import additional equipment and machinery to balance existing jute mills and to expand all uneconomic units, and to consider the establishment of 3 or 4 new jute mills. The exact target and the extent of PIDC investment is under consideration in consultation with the Pakistan Jute Mill Association, the Planning Commission and the Government of Pakistan.

The PIDC has participated in the establishment or expansion of jute mills in Egypt, Iraq, Lebanon and Turkey to the extent of Rs. 12.5 million. Its investment has been in the form of raw jute. It has also provided technical aid and advice.

PAPER INDUSTRY

9. The PIDC has been instrumental in the establishment of a large paper mill, a cardboard mill, a straw-board mill and a newsprint factory. The construction of the Karanaphuli Paper Mill was planned by the Pakistan Government in 1949-50, but is was handed over to the PIDC for completion in January 1952. It was completed in October 1953, at a total cost of Rs. 60 million, including a World Bank loan of Dollars 4.2 million. It was also converted into a public limited company. The PIDC continued as Managing Agents, but the vast majority of the shares are now held by the public. The Karnaphuli Paper Mill is now producing up to 90% of its rated capacity, and has been able to meet the total paper requirements of the country. The quality of production is good and, while the cost of production is not yet fully competitive with the old paper mills of Europe or America, some of the production of the Karanaphuli Paper Mill should be able to enter the international market when the mill reaches its target capacity of 30,000 tons per annum by January 1960. The Karanaphuli Paper Mill gave dividends of 7½% in 1956 and in 1957 and 6¼% in 1958 when part of the gross profits were used to finance purchase of additional equipment and machinery.

The high-grade board mill at Nowshera, with an annual production capacity of 7,500 tons of cardboard, was completed in November 1955, at a total cost of Rs. 18.4 million. It was subsequently sold to Adamjee Industries, and the investment of PIDC is now limited to debenture shares of the value of Rs. 2.5 million. The High-grade Board Mill is operating efficiently. Its annual production in 1958-59 was valued at a little over Rs. 13 million.

The Sethi Strawboard Mill at Rahwali (West Pakistan) was completed by the PIDC in November 1955 at a total cost of Rs. 12.10 million. After conversion into a public limited company, 49% of the shares were sold to the public and the management was entrusted to an associate of the PIDC. The mill has had considerable operational difficulties and the cost of production is still not as low as one would wish. Nevertheless, its production in 1958-59 was valued at a little over Rs. 7 million.

The biggest venture of the PIDC in the paper field has been the establishment of the Newsprint Factory at Khulna (East Pakistan). The factory was completed in July 1959, at a total cost of approximately Rs. 133 million. Another Rs. 15 million will be required as working capital. The Newsprint Factory is now in trial production. It expects to reach its rated capacity of 23,000 tons of newsprint and 12,000 tons of mechanical printing paper, by December 1961.
28/9

The PIDC is investigating the possibility of setting up one or more hardboard and cardboard mills in East Pakistan during the second Five Year Plan period (1960-65).

HEAVY ENGINEERING (IRON AND STEEL)

10. The possibility of setting up an integrated iron and steel mill has been under examination since 1952. Initial exploration of iron ore deposits in the Kalabagh area was completed in December 1953 with the help of a team of German experts. Since then, mining operations have been carried out by the PIDC. Over 77,000 tons of iron ore had been produced by March 1959. The proved reserves of iron ore are estimated at 23 million tons, with a probable reserve of approximately 100 million tons. The iron ore is not, however, of a high quality, the average F.E. content being 35%. There is the further handicap that Pakistan does not produce any coking coal, which would either have to be imported or a special process adopted to utilise the poor quality of indigenous coal. The PIDC has also carried out a preparatory survey of the iron ore deposits in the Chitral area and prepared a scheme for the construction of an all-weather road and tunnel to Chitral.

With the help of their Consultants, Messrs. Krupps of Germany,—the PIDC prepared and submitted a comprehensive scheme to Government for the establishment of an integrated iron and steel mill, with an initial capacity of 69,000 tons per annum, to be located at Multan. The project was approved, in principle, but its construction was delayed on account of the relatively high cost of production and some misgivings regarding the technical process involved. The whole case is now under review, and a final decision is likely to be taken in the near future.

SHIPBUILDING INDUSTRY

11. The PIDC has built two Shipyards in Karachi and Khulna (East Pakistan) and a Dockyard at Narayanganj (East Pakistan). The first phase of the Karachi Shipyard and Engineering Works was completed in March 1956 at a total cost of approximately Rs. 43 million. Since then, another Rs. 20.6 million have been spent on further extensions and the construction of a large foundry. The project has been converted into a public limited company, but all the shares are held by the PIDC on behalf of Government. The Karachi Shipyard provides dry-docking facilities for both Pakistani and foreign ships, and has undertaken a good deal of ship repairs and general fabrication work. Construction of new ships has been limited to boats and tugs, but the Yard hopes to undertake construction of larger ships as soon as the necessary skill and experience has been acquired and costs of production are brought down to a more reasonable level.

The Khulna Shipyard involved an investment of Rs. 23.5 million, but some additional expenditure is likely to be incurred to complete the yard. The ship repair work carried out during the years 1957-58 and 1958-59 were valued at Rs. 3.38 and 1.63 million respectively. The Shipyard is also capable of constructing boats for use in East Pakistan's inland waterways and has a large workshop for handling miscellaneous fabrication work.

. The Narayanganj Dockyard was taken over from the East Pakistan Government, its facilities were expanded and a great deal of new equipment added to the workshops at a total cost of Rs. 10.3 million. It has been converted into a public limited company to be owned by the PIDC and the East Pakistan Government. The Dockyard is used largely for repairs of Government and private launches, motor boats, etc. It handles a considerable amount of work for its size, but it is not, as yet, a profitable concern.

HEAVY CHEMICALS

12. The PIDC has set up three projects under this head, namely, the Nowshera Chemical Works producing Caustic Soda, the D.D.T. Factory at Nowshera, and the Sulphuric Acid-cum-Superphosphate Plant at Lyallpur.

The Nowshera Chemical Works were completed at a cost of Rs. 26 million, and have a rated capacity of 3,500 tons of Caustic Soda. It was subsequently sold to Adamjee Industries and is now wholly owned by them.

The D.D.T. Factory at Nowshera was set up at a total cost of Rs. 2.93 million in collaboration with UNICEF, which provided the plant and machinery costing Rs. 1.17 million. The plant is being operated by the PIDC, on a no-profit-no-loss basis, on behalf of the Ministry of Health. The D.D.T. Factory has a rated capacity of 700 tons of 100% D.D.T. per annum. But, for a variety of reasons, the factory has not been able to operate at full capacity and the cost of production has been rather high. During 1958-59 it produced 620 tons of 100% and 50% D.D.T. valued at Rs. 4.84 million.

The Sulphuric Acid/Superphosphate Plant at Lyallpur has been completed at a total cost of Rs. 2.57 million. The plant has a rated capacity of 6,000 tons of Sulphuric Acid and 6,000 tons of Superphosphate per shift per annum. In view of the limited home demand, the factory is not yet running at full capacity, but as the farmers get used to the benefits of Superphosphate

fertilizers, it is hoped that it would be possible to run the plant at full capacity and to sell all its production. The project has been converted into a public limited company, and about 24% of the shares are held by a private party. The management is with the PIDC.

The PIDC is investigating the possibility of setting up a Caustic Soda plant in East Pakistan during the second Five Year Plan period.

FERTILIZERS

13. The PIDC has taken the initiative in setting up three fertilizer factories. The Pak-American Fertilizer Factory, Daukhel was completed in January 1958, at a cost of Rs. 80.5 million, out of which, machinery, equipment, and technical services costing Rs. 41.3 million were provided by the United States under their economic aid programme to Pakistan. The factory has a rated capacity of 50,000 tons of ammonium sulphate. In spite of shortage of trained chemical engineers, chemists, etc., and other teething troubles, the Daudkhel Fertilizer was able to produce 29,983 tons of ammonium sulphate during the first year of its operation. The cost of production is slightly higher than that of imported ammonium sulphate, but the quality has been found to be as good as any of the fertilizers received from abroad. The bulk of the production is being sold direct to the Agricultural Departments of Governments of West Pakistan and East Pakistan, but some sales have been effected through commercial channels. It is proposed to convert the project into a public limited company, but, for some time to come all the shares will be held by the PIDC on behalf of Government.

The PIDC has also taken in hand the construction of two large fertilizer factories at Multan, in West Pakistan, and Fenchuganj, in East Pakistan, based on natural gas, for production of ammonium nitrate and urea. Each of these factories will have a capacity equivalent to 250,000 tons per annum of ammonium sulphate. Both the factories are expected to be ready by the spring of 1961. The Natural Gas Fertilizer Factory at Multan is expected to cost about Rs. 169 million while the cost of the Natural Gas Fertilizer Factory at Fenchuganj is estimated at over Rs. 224 million, inclusive of the cost of a power station at Fenchuganj and the gas pipeline from the gas field at Haripur to Fenchuganj. All the funds for the two new fertilizer factories have been provided by the Pakistan Government, except for a grant of Dollars 10 million given by the United States.

SUGAR INDUSTRY

14. The sugar industry in Pakistan has been developed both by public and private enterprise. The PIDC has been responsible for setting up five sugar mills with a combined capacity of 80,575 tons per annum, at a total investment of Rs. 90 million, including Rs. 4.5 million received as economic aid from New Zealand. The three sugar mills in East Pakistan are still owned and managed by the PIDC, but both the sugar mills set up in West Pakistan (namely, Charsadda and Jauharabad) have been sold to private parties, with the PIDC retaining only a small percentage of the shares. The PIDC was also instrumental in planning and purchasing the machinery of two more sugar mills in West Pakistan, namely, at Lyallpur and Tando Mohd. Khan, one of which has been taken over wholly by a private industrialist, while the other is now being financed out of the Soldiers' Post-War Reconstruction Fund.

During the calendar year 1958, the sugar production of the PIDC mills amounted to 27% of the total production in Pakistan (44,694 tons out of a total of 162,600 tons). The proportion will be higher in 1959 since some of the PIDC sugar mills got into regular production only this year.

Sanction has been received for the establishment of one more sugar mill in East Pakistan, and surveys have been undertaken to determine the possibility of setting up more sugar mills in both wings of the country during the second Five Year Plan period.

CEMENT INDUSTRY

15. The PIDC has set up two cement factories, the Zeal-Pak Cement Factory, Hyderabad, with a rated-capacity of 240,000 tons per annum, and the Maple-Leaf Cement Factory at Daudkhel, with a rated capacity of 100,000 tons per annum. The Zeal-Pak Cement Factory cost Rs. 28.1 million, which included an aid of Rs. 7.83 million received from New Zealand. The Maple-Leaf Cement Factory was set up at a cost of Rs. 42.1 million. The foreign exchange component of Rs. 22.5 million was provided by Canada under the Colombo Plan. Both cement plants came into production in 1956, and have been operating at more than their rated capacity for the last two years. Their production constitutes about 40% of the total production of cement in Pakistan. (In 1958, the PIDC cement factories produced 424,077 tons out of the country's total production of 1,073,000 tons.) It has been decided to add a third kiln at the Zeal-Pak Cement Factory, with an annual capacity of 120,000 tons, and a second kiln at the Maple-Leaf Cement Factory with an annual production of 150,000 tons. Both these extensions are being financed out of the reserves of these projects, and no additional funds have been asked from Government. The extensions are expected to be completed by March 1960.

The Zeal-Pak Cement Factory has been converted into a public limited company, and about 20% of the shares are now in private hands. The Company has been giving a dividend of 7½% free of tax—and its shares are in great demand.

The Maple-Leaf Cement Factory will also be converted into a public limited company very shortly, but on account of the comparatively high initial capital cost, some difficulty may be experienced in putting the shares on the market.

The PIDC has carried out field surveys to explore the possibility of setting up a cement plant in East Pakistan and additional cement factories in West Pakistan if private enterprise is unable or unwilling to undertake these ventures during the next five years.

TEXTILES

16. Private enterprise has been largely responsible for the enormous expansion in the cotton textile industry in Pakistan since 1947. The PIDC has, therefore, not found it necessary to enter this field. The only two cotton textile mills put up by the PIDC, namely, the Muslin Cotton Mill at Kaliganj (East Pakistan), and the Talpur Textile Mill at Tando Mohd. Khan (West Pakistan), were in the nature of rescue operations. In both cases other parties had imported the textile machinery, but had found it difficult to instal and operate the mills, and the PIDC undertook the task in the national interest. The Muslin Cotton Mill has 44,000 spindles, is operating efficiently, and is a profitable concern. It has been converted into a public limited company in which, initially, 51% of the shares will be held by the PIDC and 49% by the Government of East Pakistan. At a latter stage, it might be possible to transfer the ownership to private parties. In 1958-59, the Muslin Cotton Mill produced 7.4 million lbs. of yarn valued at approximately Rs. 21 million.

The Talpur Textile Mill, with 10,000 spindles, was brought into production very recently. About 10% of the shares are held by private parties, and the balance of the investment came out of the reserves of the Muslin Cotton Mill.

In order to improve the quality of cotton ginning in West Pakistan, the PIDC has assisted private parties in setting up six model cotton ginning factories at a total investment of Rs. 4.2 million. The ginning factories are owned and operated by private parties, the Corporation's investment being limited to less than 10%. The PIDC provided the foreign exchange and technical advice, and assisted in procurement of land, railway sidings and other facilities.

The PIDC had set up three wollen mills at Bannu, in the North Western Frontier, at Harnai (in Baluchistan) and at Qaidabad in the Thal, at a total cost of Rs. 13 million. The Bannu and Harnai Woollen Mills have each a capacity of 40,000 blankets, 400,000 lbs. of yarn, and 270,000 lbs. of fine threads, while the Qaidabad Woollen Mill is capable of producing 600,000 lbs. of woollen yarn and woollen goods. The machinery for the Bannu and Harnai Woollen Mills was purchased by Government. They were located by Government at these outlying places primarily with the object of providing employment to the tribal areas. They have not worked as economically as some of the more centrally located and privately owned woollen mills. The Qaidabad Woollen Mill, which was planned and purchased by the PIDC, is, however, a more efficient unit and has been producing blankets of good quality for the Pakistan Army.

CHEMICALS, PHARMACEUTICALS AND DYE STUFFS

17. The PIDC has participated in four projects which come under this head. The Kurram Chemical Company, which produces santonin, was taken over by the PIDC in August 1954 mainly to ensure regular off-take of artemisia produced in the Kurram Valley. The Kurram Chemical Company is reputed to be the largest manufacturer of santonin in the world. It manufactured 3,722 kilos of santonin in 1958-59, of which, 3,128 kilos, valued at Rs. 0.74 million, were exported. The Kurram Chemical Company has a nominal capital of Rs. 100,000. Fifty per cent of the shares are held by the PIDC and the balance by private parties.

The PIDC has been instrumental in the setting up of the Rosin and Turpentine Factory at Haripur, in partnership with the West Pakistan Government and Messrs. Guest Agency Company Ltd. The factory has a capacity of 110,000 maunds of rosin and 225,000 gallons of turpentine, and has been set up at a cost of Rs. 1.65 million. The factory came into production in April 1958, and produced goods worth nearly Rs. 3 million during the year 1958-59.

The PIDC has recently completed the erection of a Dyes and Chemicals Factory at Daudkhel at a cost of Rs. 6 million, in partnership with the well-known German firm of Bayer, which has invested Rs. 1.8 million and provided the technical know-how. The factory will produce 250 tons of Red Cohgo and 300 tons of Sulphur Black dyes per annum.

The PIDC is setting up a Penicillin plant at Daudkhel, the machinery for which has been provided by UNICEF. The factory is expected to cost Rs. 9.88 million, including UNICEF aid of Rs. 3.8 million, and will produce 600,000 mega units of Penicillin per month. The factory will be operated by the PIDC, on a no-profit-no-loss basis, on behalf of the Ministry of Health.

NATURAL GAS

18. Consequent upon the discovery of a large deposit of natural gas at Sui (West Pakistan) by the Pakistan Petroleum Limited (Burmah Oil Company), the PIDC joined hands with the Burmah Oil Company in building a sixteen inch pipeline from Sui to Karachi, a distance of 352 miles. The project cost Rs. 84 million. The World Bank provided a loan of £5 million (Rs. 46.2 million at the then prevailing rate of exchange), while the equity capital of £4 million was contributed in almost equal shares by the Burmah Oil Company, the Commonwealth Development Finance Corporation, the PIDC and Pakistani shareholders. The Sui Gas Transmission Company is now in its fourth year of operation, and sold natural gas of the value of approximately Rs. 23.86 million in 1958-59. The company declared a tax free dividend of 7½% in 1957-58 and of 10% in 1958-59.

The PIDC has financed the construction of another sixteen inch pipeline from Sui to Multan at a total cost of Rs. 97.3 million. It is proposed to convert this project into a public limited company. The possibility of extending the pipeline to Lyallpur and Lahore is under consideration.

The PIDC has also participated in the setting up of two gas distribution companies, namely, the Karachi Gas Company, which operates in the Federal Capital, and is now largely owned by a private party, and the Indus Gas Company, which serves the area from Sui to the borders of Karachi, and is owned and operated by PIDC.

The Corporation is exploring the possibility of setting up a gas liquification plant at Karachi and chemical industries based on natural gas. These ventures will be undertaken in partnership with experienced foreign parties if the preliminary surveys establish the economic and technical feasibility of the projects.

As already mentioned, the PIDC is constructing the gas pipeline from the Sylhet gas fields (Haripur) to the Natural Gas Fertilizer Factory at Fenchuganj.

DEVELOPMENT OF POWER FROM NATURAL GAS

19. The PIDC undertook the construction of a large thermal power station at Multan, producing 142,000 kw of power based on natural gas. The project was estimated to cost about Rs. 108 million and to be completed by the end of 1959. The Corporation also undertook the construction of a transmission line from Multan to Lyallpur, at an estimated cost of Rs. 26 million, and did a preliminary survey of the West Pakistan High Tension Grid, linking the Warsak multi-purpose project with the natural gas power station at Multan. All these power projects were, however, transferred to the newly created Water and Power Development Authority in West Pakistan on 1st January, 1959.

COLLIERIES

20. As already explained, coal was one of the industries not included in the PIDC charter, but the Corporation found it necessary to undertake the mechanization and operation of the Makerwal collieries to provide the coal requirements of the Pak-American Fertilizer Factory and the Maple-Leaf Cement Factory at Daudkhel. The PIDC also took over the lease of two collieries in Baluchistan in order to supply a part of the coal requirements of the projected iron and steel mill at Multan. The Makerwal Group of collieries was taken over in 1954. A sum of Rs. 7.7 million has been spent on their development and mechanization, including Rs. 5.1 million of foreign exchange received as economic aid from the United States. The PIDC has been operating the Quetta and Sharigh coal mines and has prepared and submitted to Government a comprehensive programme for the development of the coal resources of Baluchistan during the next six years. The production of coal from the collieries controlled by the PIDC during 1958 was 206,423 tons, which represents about 34% of the country's total production of coal.

The PIDC has carried out a preliminary survey for exploiting the large deposits of peat which are known to exist in several districts of East Pakistan. A pilot project will be started in Faridpur district. If this is found to be technically and economically sound, extraction and processing of peat on a large scale will be undertaken and will help to replace some of the coal now imported for the factories and thermal power stations in East Pakistan.

HANDICAPS OF THE PIDC

21. Enough has been said to show the size and range of the PIDC's industrial undertakings. There is no doubt that the Corporation has played a decisive role in the industrial development of Pakistan. It would, however, be idle to pretend that no mistakes have been made or that all has been smooth sailing. In common with Pakistan's private industrialists, the PIDC suffered at the outset from inexperience, the paucity of trained technicians, and the lack of industrial know-how. In addition, the Corporation has laboured under a number of handicaps peculiar to its position and responsibility as a Government-financed institution. One must take these handicaps into account in appraising the work and achievements of the PIDC.

Firstly, the Corporation was expected to undertake only those projects which private industrialists were unable or unwilling to undertake. This meant that, while private parties were free to invest in comparatively easy and more profitable industries, the PIDC had to take the initiative in setting up the more difficult and less profitable industries in the overall interests of the country.

Secondly, although the PIDC is required by its Charter to act on commercial considerations in the discharge of its functions, and while the Corporation endeavours to follow normal economic and financial considerations in the establishment and operation of its industrial enterprises, the profit motive has not been the sole criterion governing the decisions either of the PIDC or of the Government of Pakistan. Both the Corporation and the Government have sought to keep in view the desirability of developing the industrial potential of both wings of Pakistan. Moreover, in determining the location of its factories, the PIDC has made a special effort to distribute them as widely as possible, and to avoid excessive concentration of industry in a small number of urban centres. This necessitated setting up power stations, workshops and other facilities which do not normally form part and parcel of a factory in industrially advanced countries. This policy has also necessitated the construction of large housing colonies, schools, hospitals, and other facilities for the factory employees of the PIDC.

Thirdly, being a State-financed institution, the PIDC is expected to serve as a model employer. Therefore, apart from the residential and medical facilities referred to above, the Corporation has found it necessary to make its employees eligible for provident funds and to grant production or profit bonus wherever the financial position of each of its projects made it possible.

Fourthly, while every effort has been made to employ and train Pakistani technical personnel, the magnitude of some of the Corporation's ventures made it essential to employ foreign consultants, technicians and contractors, which added considerably to both the initial capital expenditure and the operational costs of these enterprises. Whether any private party in Pakistan could have done better is, however, open to doubt.

Fifthly, while every effort has been made to find good managers and accountants for the factories and mills, it would be fair to recognise that the management and control of such a large number of enterprises has placed a very heavy burden on the Board of Directors and Heads of Departments.

Whether private management is better than public management depends necessarily on the quality and capability of the people involved, but it would probably be true to say that while the PIDC enjoyed an advantage over private parties in planning and erecting factories, it was at a disadvantage in the operation of the factories built. It has been the experience of other countries, and this may be true of Pakistan as well, that private management, with its own investment and profits at stake, is likely to be more successful in reducing the costs of operations, than a Government Department or a semi-Government authority. This is the reason and justification for PIDC's effort to associate private capital in its ventures and sell its completed projects whenever the time is opportune and a reasonable price is forthcoming.

MANAGEMENT PROBLEMS OF PIDC

22. It is not possible within the compass of this short paper to deal at length with the management problems of the PIDC or to describe in detail its operational methods, policies and experiences. One can merely invite attention to some of the salient features.

(*i*) The Corporation recognised from the outset the necessity for preparing comprehensive surveys and project reports before undertaking large industrial ventures. The existence of a revolving fund of Rs. 5 million has made it possible for the

Corporation to undertake these surveys without waiting for formal Government sanction, and thus to have a portfolio of suitable projects. This makes it possible for the PIDC to begin construction almost immediately after a proposal is approved. The surveys are carried out by technical experts of the PIDC itself, in consultation with foreign technicians, where necessary.

(*ii*) Shortage of technical staff has been a permanent handicap to the PIDC as much as of Pakistani private industrialists. While every effort has been made to employ qualified Pakistanis, the PIDC has not hesitated to engage foreign technical experts and to take full advantage of the technical assistance offered by the United States, the Colombo Plan countries and the United Nations. In the case of large projects, reputable firms of consultants have been employed even though this has meant considerable additional expense.

(*iii*) The PIDC has attached a great deal of importance to the training of its employees, both at home and abroad. A large number of engineers, chemists, accountants, etc. have been sent for training abroad, either under the technical aid programmes, or by special agreement with the manufacturers supplying the plant and machinery. Apprenticeship schemes have been introduced in the large factories for training of skilled and semi-skilled workers. The PIDC has also been operating, on behalf of the Ministry of Labour, and on a no-profit-no-loss basis, the Training-Within-Industry Programme of Pakistan for which a generous grant was provided by the Ford Foundation.

(*iv*) While housing colonies and other relatively simple buildings have been constructed through local contractors, the contracts for the factory buildings and other installations have been given to big national construction firms or foreign contractors with specialized experience in these lines. This might result in a slightly higher cost, but experience has shown that this ensures good and reliable work.

(*v*) In the case of the new natural gas fertilizer factories, the PIDC entered into turn-key contracts under which Messrs. Ensa of France and Kobe Steel of Japan, the two contractors for Multan and Funchuganj, respectively, undertook not only to supply the plant and machinery for the fertilizer factories, to train Pakistani staff, and to operate the factories during the first few years. Similarly, in the case of the Pak-American Fertilizer Factory at Daudkhel, and the Newsprint plant at Khulna, the consultants who designed and engineered the factories also took responsibility for their initial operation.

(*vi*) In framing its recruitment, purchase and sale policies, the PIDC has drawn upon both the experience of Government Commercial Departments, such as the Railways and the Directorate-General of Supply and Development, and of purely commercial or industrial firms operating in Pakistan. An effort has been made during the last seven or eight years to frame rules and regulations, but these are by no means comprehensive and in a large number of matters projects follow the office orders or other instructions issued by the Head Office from time to time. There is extensive delegation of powers to Heads of Departments, Mill Managers, etc. While the staff in the field is expected to observe the policy directions or other instructions issued from Head Office, a considerable amount of discretion is left to Mill Managers in the performance of their day-to-day duties. Initially, the staff had to be recruited from a variety of sources, but it has now become possible to prescribe minimum qualifications and pay for posts, and to insist that, normally, all posts would be advertised and filled on the recommendations of Selection Committees.

(*vii*) There are no hard and fast rules governing relations between the PIDC and its associates. The PIDC is normally responsible for surveying and planning the project, obtaining foreign exchange from Government, placing orders for the plant and machinery, and the procurement of land, railway, power and water connections, and any other services with which the Government might be concerned, and supervising the construction and erection of the plant. Whether or not the plant should be operated by the PIDC, or by one of its associates, depends upon the financial interest of each party in that project, and the background and experience of the associate. The Corporation has not hesitated to transfer the operational management to its partners where the latter possessed the necessary knowledge and experience. But even after a project has been sold or handed over to a private party, the PIDC continues to look after the welfare of the enterprise, to provide foreign exchange for raw materials, spare parts, etc. and to assist its associates in their dealings with Government Departments. This is one of the reasons why even big private industrialists are keen to enlist the help of the PIDC in setting up new industrial ventures for which they are willing and able to put up the bulk of Rupee finance.

(*viii*) Purchases are made both by tender and negotiations, the final decision in all important cases vesting in the Board of the PIDC. The major negotiations are handled by the Chairman or one of the Directors concerned, while there is a central Purchase Department at Karachi and Regional Purchase Departments at Dacca and Lahore. Purchase powers have been delegated to Heads of Departments, and local purchases may be made by Mill Managers in accord with prescribed rules.

(*ix*) There is no rigid policy with regard to the sale and marketing of the goods manufactured by various concerns of the PIDC. They vary from industry to industry. In the case of rationed goods, such as sugar, all the production is sold to the Food Department of the Governments of East and West Pakistan, and the Karachi Administration. Government also buys most of the fertilizer produced by the fertilizer factories at Daudkhel and Lyallpur. A considerable proportion of the cement produced by the PIDC factories is taken by Government indentors, but the balance is sold through commercial distributors. The total production of the D.D.T. and Penicillin plants will go to Government hospitals for free distribution as this is one of the conditions of the aid given by UNICEF. The products of most of other factories, such as, jute mills, woollen mills, the two cotton textile mills, chemical plants, etc., are sold in the market on normal commercial terms.

(*x*) The accounts of the PIDC are maintained on the same lines as business concerns, but they are liable to audit both by Commercial Auditors and by the Comptroller and Auditor-General of Pakistan.

(*xi*) As the initial capital for PIDC ventures is provided by Government, so all the sale proceeds, dividends and other income from these projects are paid into the Treasury. The PIDC retains only the income from its offices and residential buildings, managing agency fees, commissions, etc.

CONCLUSIONS

23. It is difficult for a Director of the Corporation to be completely objective with regard to the achievements of the PIDC. In this paper an attempt has been made to describe the aims and objectives of the Corporation, its organization and policy, and its relationship with Government, and private

industrialists, and to give an account of mills and factories set up by the Corporation and the results obtained. While the achievements of the Corporation have been highlighted, no attempt has been made to conceal its weaknesses or drawbacks, or to overrate the contribution of the public sector in the industrial development of Pakistan.

24. It must be said in conclusion that this paper represents the personal views of the author and should not be taken to commit either the PIDC or the Government of Pakistan.

ANNEXURE I

ACT NO. XLV OF 1950

PASSED BY THE
PAKISTAN CONSTITUENT ASSEMBLY (LEGISLATURE)

Received the assent of the Governor-General on the 19th April, 1950

An Act to establish the
PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION

WHEREAS it is expedient to establish an Industrial Development Corporation for the purpose of promoting industries;

It is hereby enacted as follows :

1. (1) This Act may be called the Pakistan Industrial Development Corporation Act, 1950.

(2) It extends to all the provinces and the Capital of the Federation and shall extend to such Acceding States as shall be their Instrument of Accession accept the subject matter of this Act as a matter with respect to which the Federal Legislature may make laws for such States.

(3) It shall come into force on such date as the Central Government may, by notification in the official Gazette, appoint.

INTERPRETATION

2. In this Act, unless there is anything repugnant in the subject or context :

(*a*) "Board" means the Board of Directors of the Corporation;

(*b*) "Corporation" means the Pakistan Industrial Development Corporation established under this Act; and

(*c*) "Prescribed" means prescribed by rules or regulations under this Act.

ESTABLISHMENT AND INCORPORATION

3. (1) As soon as may be after the commencement of this Act the Central Government shall establish a Corporation to be called the Pakistan Industrial Development Corporation.

(2) The Corporation shall be a body corporate by the name of the Pakistan Industrial Development Corporation, having perpetual succession and a common seal with power, subject to the provisions of this Act, to acquire and hold property both movable and immovable and shall by the said name sue and be sued.

NOTES

SHARE CAPITAL

4. (1) The authorised share capital of the Corporation shall be one crore of rupees, divided into one hundred full paid-up shares of one lakh of rupees each, of which twenty-five shares shall be issued in the first instance and the remaining shares may be issued from time to time by the Corporation with the previous sanction of the Central Government.

(2) Nothing in sub-section (1) shall prevent the Corporation from increasing the capital, as it may think fit, with the previous sanction of the Central Government.

MANAGEMENT

5. (1) The general direction and administration of the Corporation and its affairs shall vest in the Board, which may exercise all powers and do all acts and things which may be exercised or done by the Corporation.

(2) The Board in discharging its functions shall act on commercial considerations and shall be guided on questions of policy involving the national interest (including commercial and industrial interest) by such directions as the Central Government, which shall be the sole judge whether the national interest is involved, may give it from time to time.

(3) If the Board fails to obey any direction as aforesaid the Central Government may remove the Directors, including the Chairman, and notwithstanding anything in section 6 appoint persons in their place to be Directors temporarily until fresh Directors are appointed under that section:

Provided that only the provisions of clauses (*a*), (*b*) and (*c*) of sub-section (2) of the said section shall apply to persons appointed under this sub-section to be Directors temporarily.

APPOINTMENT AND TERM OF OFFICE OF DIRECTORS

6. (1) The Board shall consist of five Directors to be appointed by the Central Government :

Provided that the first Board may, for so long as the Central Government sees fit, consist of three Directors.

(2) Each Director shall—

(*a*) be a whole-time officer of the Corporation;

(*b*) perform such duties as the Board may by regulations assign to him;

(*c*) divest himself of any directorship or other interest held by him in any other Corporation, company or concern other than public companies sponsored by the Corporation under sub-section (2) of Section 14 before assuming office as Director;

(*d*) hold office for a term of three years unless sooner removed by the Central Government and may be appointed thereafter for a further term or terms of such duration as the Central Government may in appointing him therefor, determine; and

(*e*) receive such salary and allowances as the Central Government may determine.

Provided that the Central Government may in exceptional circumstances where it considers it necessary to do so in the public interest exempt by a special order any person who has been appointed or is about to be appointed a Director from the application of clauses (*a*) and (*c*) of this sub-section.

7. (1) The Central Government shall appoint one of the Directors to be Chairman of the Board :

(2) Subject to his continuing to hold office as a Director, the Chairman shall hold office as Chairman for a term of three years and subject to

aforesaid shall remain in office as Chairman thereafter until his successor in that office is appointed and may, subject as aforesaid, be reappointed to hold that office for a further like term or terms.

DISQUALIFICATION OF DIRECTORS

8. (1) No person shall be or shall continue to be a Director who—

(*a*) is or at any time has been convicted of an offence involving moral turpitude; or

(*b*) is or at any time has been adjudicated insolvent; or

(*c*) is found a lunatic or becomes of unsound mind; or

(*d*) is or at any time has been disqualified by an order under the Public and Representative Offices (Disqualification) Act, 1949; or

(*e*) is a minor.

(2) No Director shall continue in office after absenting himself from three consecutive meetings of the Board without the leave of the Chairman or, in the case of the Chairman, of the Central Government.

APPOINTMENT OF OFFICERS, ETC.

9. The Corporation may appoint such Officers, advisers and employees as it considers necessary for the efficient performance of its functions on such terms and conditions as it may see fit.

MEETINGS OF THE BOARD

10. (1) The meetings of the Board shall be held at such times and such places as may be prescribed.

Provided that until regulations are made in this behalf such meetings shall be convened by the Chairman of the Board.

(2) To constitute a quorum at a meeting of the Board—

(*a*) so long as the first Board consists of three Directors, not less than two Directors shall be present, and

(*b*) when the Board consists of five Directors not less than three Directors shall be present.

(3) Each Director including the Chairman shall have one vote, and in the event of an equality of votes the Chairman shall have a second or casting vote.

(4) If for any reason the Chairman is unable to be present at a meeting, the Director so authorised by him in writing shall preside at that meeting, and in default of such authorisation the Directors present shall elect a Chairman to preside at that meeting.

HEAD OFFICE

11. The Corporation shall establish its Head Office in Karachi and shall, as soon as may be establish an office in East Bengal.

DEPOSIT ACCOUNT

12. The Corporation may open a deposit account with the State Bank of Pakistan or with any Agency of the State Bank other than a Government Treasury or with the prior approval of the Central Government, with any other bank.

INVESTMENT OF FUNDS

13. The Corporation may invest its funds in any securities of the Central Government or a Provincial Government.

NOTES

BUSINESS WHICH THE CORPORATION SHALL TRANSACT

14. (1) The Corporation shall submit, for the approval of the Central Government, schemes for the establishment of the industries specified in the Schedule to this Act.

(2) The Corporation shall, as soon as may be able proceed to give effect to any scheme so approved by sponsoring public companies (hereinafter referred to in this section as "the aforesaid companies") incorporated under the Companies Act, 1913, and independent of each other and having as their object manufacturing undertakings in the industry concerned:

Provided that before sponsoring any said company the Corporation shall obtain the approval of the Central Government to the Company's capital structure.

(3) The Corporation shall, unless otherwise directed by the Central Government, act as Managing Agents for the aforesaid companies, and may, with the prior concurrence of the Central Government, relinquish the managing agency in favour of any company.

(4) Nothing in section 87A of the Company Act, 1913, shall apply to the Corporation.

(5) The Corporation shall be represented on the Board of Directors of the aforesaid companies.

(6) The Corporation may issue the capital required by the aforesaid companies for public subscriptions, and if any portion thereof remains unsubscribed for a period of four months from the date of issue, that portion shall be subscribed for by the Corporation on behalf of the Central Government.

(7) The Corporation may underwrite the whole or any portion of the share capital so issued.

(8) The Corporation shall, when it considers the time opportune, sell or transfer the shares subscribed for by it under sub-section (6):

Provided that no such sale or transfer shall take place at a rate below the market quotation or below the par value of such shares without the previous sanction of the Central Government.

(9) The Corporation may, with the previous sanction of the Central Government and on such terms and conditions as may be approved by the Government borrow in foreign currency from the International Bank of Reconstruction and Development or otherwise moneys required for development of industries specified in the Schedule to this Act.

"15. Audit—(1) The accounts of the Corporation shall be audited by auditors holding certificates under section 144 of the Companies Act, 1913, who shall be appointed for that purpose by the Corporation with the previous approval in writing of the Central Government.

(2) Notwithstanding the audit provided for by sub-section (1), the Comptroller and Auditor-General of Pakistan (hereinafter referred to as the Auditor-General) shall audit or cause to be audited the accounts of the Corporation.

(3) The Auditor-General shall also hold, or cause to be held, a test audit of the undertakings wholly owned by the Corporation and of the companies of which the Corporation is the Managing Agents, and in the event of a test audit disclosing irregularities, the Auditor-General may carry out, or cause to be carried out, such further audit as he considers necessary.

(4) The Corporation and every such undertaking and company as is referred to in sub-section (3) shall produce the accounts, books and connected documents, at the place where they are normally expected to be available, and furnish such explanations and information as the Auditor-General or any officer authorized by him in this behalf may require at the time of audit.

(5) The Auditor-General shall, in holding the audit, keep in view the provisions of sub-section (2) of section 5 and state in his report how far in his opinion these provisions have been complied with.

(6) The Auditor-General shall, while holding the audit, take into consideration the fact that the Corporation is a commercial organization."

ACCOUNTS

16. A statement of its accounts audited by the auditors referred to in the sub-section (1) of section 15 shall be furnished to the Central Government by the Corporation as soon as possible after the end of every financial year.

ANNUAL REPORT

17. The Corporation shall, as soon as possible after the end of every financial year, submit an annual report to the Central Government on the conduct of its affairs for that year, and on its proposals for the next ensuing financial year.

REPORTS FOR THE LEGISLATURE

18. The Central Government shall lay before the Central Legislature, as soon as possible after the end of every financial year, the audited statement of accounts referred to in section 16 and the annual report referred to in section 17, together with such observations as the Central Government may see fit to make.

POWER OF CENTRAL GOVT. TO MAKE RULES

"19. The Central Government may make rules for carrying out the purposes of this Act and such rules may inter-alia provide for regulating all or any of the following matters, namely :

(1) Relinquishment of managing agency in favour of any company.

(2) Manner of keeping accounts of the Corporation and the companies sponsored by it.

(3) Recruitment of officers, advisers and employees of the Corporation.

(4) Terms and conditions of service of the officers, advisers and employees of the Corporation, including the functions of advisers.

(5) Borrowings by the Corporation.

(6) Purchase and sale of goods by the Corporation.

(7) Such other matters relating to the administration of the affairs of the Corporation which the Central Government think fit to regulate by rules."

POWER OF BOARD TO MAKE REGULATIONS

"20. The Board may, with the previous sanction of the Central Government, make regulations to provide for all matters, not provided for in the rules made under Section 19, for which provision is necessary or expedient for carrying out the purposes of this Act and the said rules."

(2) In particular and without prejudice to the generality of the foregoing power, such regulations may provide for—

(*a*) the meetings of the Boards;

(*b*) the investment of the corporation's funds; and

(*c*) the sale or transfer of shares under sub-section (8) of section 14.

NOTES

RULES AND REGULATIONS TO BE LAID BEFORE THE LEGISLATURE

21. All rules and regulations made under this Act shall be published in the official Gazette and shall come into force upon such publication and shall be laid thereafter as soon as may be before the Central Legislature.

POWER TO AMEND SCHEDULE

22. (1) The Central Government may from time to time by notification in the official Gazette amend the Schedule to this Act so as to include therein or exclude therefrom any industry or vary the description of any industry included therein.

(2) No notification shall be made under sub-section (1) unless it has been laid in draft before the Central Legislature and has been approved by a resolution, whether with or without modification or addition, but upon such approval being given the notification may be issued in the form in which it has been so approved.

SCHEDULE

1. Jute
2. Paper
3. Heavy Engineering including Iron & Steel but excluding Shipbuilding
4. Shipbuilding
5. Heavy Chemicals other than fertilizers
6. Fertilizers
   and
7. Sugar
8. Cement
9. Textiles
   and
10. Natural Gas
11. Chemicals Pharmaceuticals and Dyestuffs
    and
12. Development of Power from Sui Gas

ANNEXURE II

POSITION OF PIDC's COMPLETED PROJECTS AS ON 31 MARCH 1959

(Figures in Millions of Rupees)

Sl. No.	Name of the Projects	Capital Cost			PIDC	Private Investment/ Foreign Aid*	Value of Proudction		Value of Exports	
		Internal	External	Total	Investment		1958-59	1957-58	1957-58	1958-59
	1	2	3	4	5	6	7	8	9	10
	A. *EAST PAKISTAN*									
1.	Adamjee Jute Mills Ltd.	27.00	48.00	75.00	12.50	62.50	94.14	96.73	48.35	58.40
3.	(Nos. I, II, III)	4.00	13.50	17.50	4.67	12.83	15.43	17.45	13.34	10.77
4.	Crescent Jute Mills Ltd.	3.50	11.50	15.00	5.00	10.00	16.45	17.56	7.03	9.68
5.	Amin Jute Mills Ltd.	6.59	15.30	21.89	5.00	16.89	17.78	16.57	13.59	11.76
6.	People Jute Mills Ltd.	3.50	11.50	15.00	7.75	7.25	16.45	17.20	13.97	11.77
7.	Chittagang Jute Mfg. Company Ltd.	2.50	5.00	7.50	..	7.50	4.22	5.41	3.32	3.21
8.	Daulatpur Jute Mills Ltd.	6.00	11.50	17.50	4.00	13.50	15.05	16.51	9.32	9.35
9.	Latif Jute Mills Ltd.	2.50	5.00	7.50	3.00	4.50	3.04	8.92	..	2.85
10.	Karim Jute Mills Ltd.	2.00	8.00	10.00	3.00	7.00	6.36	9.18	3.31	6.64
11.	Dacca Jute Mills Ltd.	3.00	7.00	10.00	2.10	7.90	1.24	7.17	0.99	5.65
12.	Nishat Jute Mills Ltd.	10.00	20.00	30.00	30.00	..	..	3.86	..	1.79
13.	Platinum Jute Mills	3.50	6.50	10.00	7.50	2.50	..	2.58	..	1.73
14.	Star Jute Mills Ltd.	21.60	38.40	60.00	11.17	48.83	37.20	42.06	..	..
15.	Karanaphuli Paper Mills Ltd.	8.50	15.00	23.50	23.50	..	3.38	1.63	..	..
16.	Khulna Shipyard									
17.	Narayanganj Dockyard & Eng. Works. Ltd.	5.49	4.81	10.30	10.30	..	1.90	4.55	..	..
18.	Rangpur Sugar Mills & Farm	15.00	11.20	26.20	26.20	..	0.92	10.80	..	..
19.	Muslin Cotton Mills Ltd.	12.00	8.00	20.00	20.00**	..	20.01	20.95	..	..
20.	Thakurgaon Sugar Mills	10.90	9.01	19.91	19.91	..	..	1.49	..	..
21.	Zeal Pak Sugar Mills	8.52	9.02	17.54	13.04	4.50*	..	1.29	..	..
	A.	156.10	258.24	414.34	208.64	205.70	253.57	301.91	113.22	133.60

**49 per cent of this investment was on behalf of East Pakistan Government.

	B. *WEST PAKISTAN*									
22.	High Grade Board/Paper Mills	8.90	10.31	18.40	2.50	15.90	12.57	13.12	..	..
23.	Sethi Straw Board Mills Ltd.	5.60	6.50	12.10	5.23	6.87	4.63	7.08	..	..
24.	Nowshera Chemical Works	1.13	1.47	2.60	..	2.60	3.17	3.18	..	..
25.	DDT Factory	1.76	1.17	2.93	1.76	1.17*	4.36	4.84	..	..
26.	SulphuricAcid/Superphosphate Plant	1.08	1.49	2.57	1.95	0.62	1.21	1.40	..	..
27.	Kurram Chemical Company Ltd.	0.10	..	0.10	0.05	0.05	2.91	2.23	0.88	0.74
28.	Pak American Fertilizer Factory	36.00	44.50	80.50	39.19	41.31*	0.45	9.80	..	..
29.	Zeal-Pak Cement Factory Ltd.	10.70	17.40	28.10	*22.54	5.56	21.38	21.48	2.29	..
30.	Maple Leaf Cement Factory	20.05	22.05	42.10	20.05	22.05*	9.33	9.20	4.72	..
31.	Jauharabad Sugar Mills	5.60	5.25	10.85	1.26	9.59	12.72	19.03	..	..
32.	Charsadda Sugar Mills Ltd.	6.94	8.57	15.51	7.50	8.01	32.11	20.82	..	..
33.	Harnai Woollen Mills Ltd.	2.73	2.27	5.00	4.18	0.82	4.22	3.12	..	..
34.	Bannu Woollen Mills	2.53	2.47	5.00	5.00	..	2.97	3.47	..	..
35.	Quaidabad Woollen Mills	1.26	1.80	3.06	3.06	..	8.43	8.28	..	..
36.	Model Cotton Gining Factories	1.75	2.45	4.20	0.42	3.78	..	..	..	..
39.										
40.	Iron Ore Survey & Prospecting, Kalabagh	1.45	0.53	1.98	1.98	..	0.15	0.04	..	..
41.	Development of Makerwal Collieries	2.30	5.40	7.70	7.70	..	7.31	7.82	..	..
42.	Preparatory Survey of Iron Ore Deposit in Dammar Nissar (Dosh Chitral) Area	0.10	0.09	0.19	0.19	..	..	..	..	..
43.	Rosin & Turpentine Factory	0.80	0.85	1.65	0.83	0.82	..	2.95	..	..
44.	Indus Gas Company Ltd.	7.40	10.43	17.83	5.00	12.83	..	..	..	..
45.	Karachi Gas Company Ltd.	16.90	21.30	38.20	5.00	33.20	..	..	..	..
46.	Sui/Karachi Gas Pipeline	14.58	69.42	84.00	8.15	**75.85	20.58	23.86	..	..
47.	Sui/Multan Gas Pipeline	39.61	57.69	97.30	97.30	..	..	..	..	..
48.	Karachi Shipyard & Eng. Works Ltd.	26.82	31.08	57.90	57.90	..	3.13	6.09	..	..
	B.	215.28	324.49	539.77	298.74	241.03	151.63	167.81	7.89	0.74
	(A+B)	371.38	582.73	954.11	507.38	446.73	405.20	469.72	121.11	134.34

*Includes Aid of Rs. 7.83 million from N' land. **Includes World Bank loan of Rs. 46.20 Million.

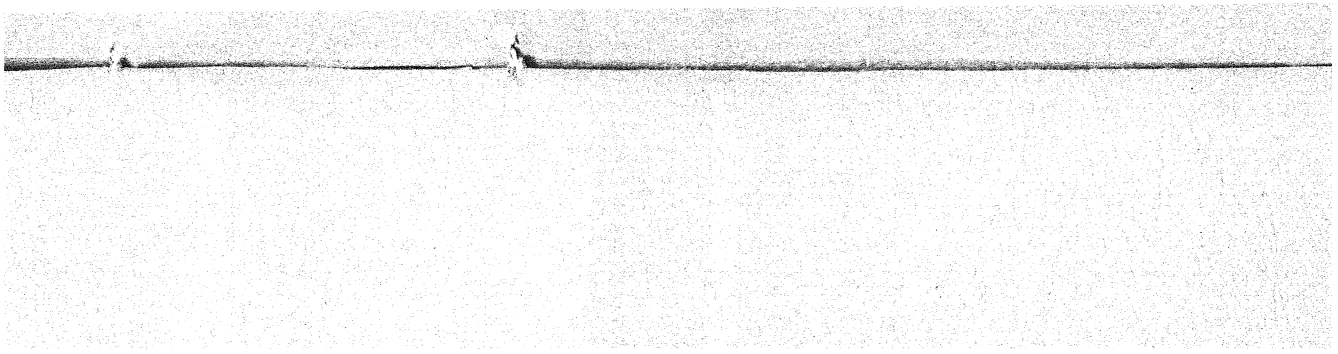
ANNEXURE III

PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION PROJECTS UNDERWAY AS ON 31 MARCH 1959

(Rupees in Million)

Sl. No.	Name of the Project	Capital Cost			PIDC Investment	Private/ Foreign Aid*	Scheduled Date of Completion
		Internal	External	Total			
1.	Newsprint Factory, Multan	56.60	91.40	148.00	148.00	..	August 1959
2.	Natural Gas Fertilizer Factory, Fenchuganj	71.20	153.40	224.60	343.50	50.00*	April-June 1961
3.	Natural Gas Fertilizer Factory, Multan	56.90	112.00	168.90			
4.	Zeal Pak Cement Factory, Hyderabad (2nd Ext.)	5.60	9.40	15.00	..	15.00 (Mill's own investment)	March 1960
5.	Maple Leaf Cement Factory, Daudkhel (1st Ext.)	7.30	11.00	18.30	..	18.30 (Mill's own investment)	March 1960
6.	Penicillin Factory, Daudkhel	4.18	5.70	9.88	6.80	3.08*	September 1959
7.	Pak Dyes & Chemicals Ltd., Daudkhel	2.95	3.05	6.00	4.20	1.80	June 1959
8.	All Weather Roads & Tunnel Project Preparatory/Survey	0.74	6.07	6.81	6.81	..	..
9.	Gullakhel, Mullakhel, Development Project (Supplement to Makerwal)	3.40	5.60	9.00	3.90	5.10*	Dec. 1959
	TOTAL	208.87	397.62	606.49	513.21	93.28	

New India Press, New Delhi



SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

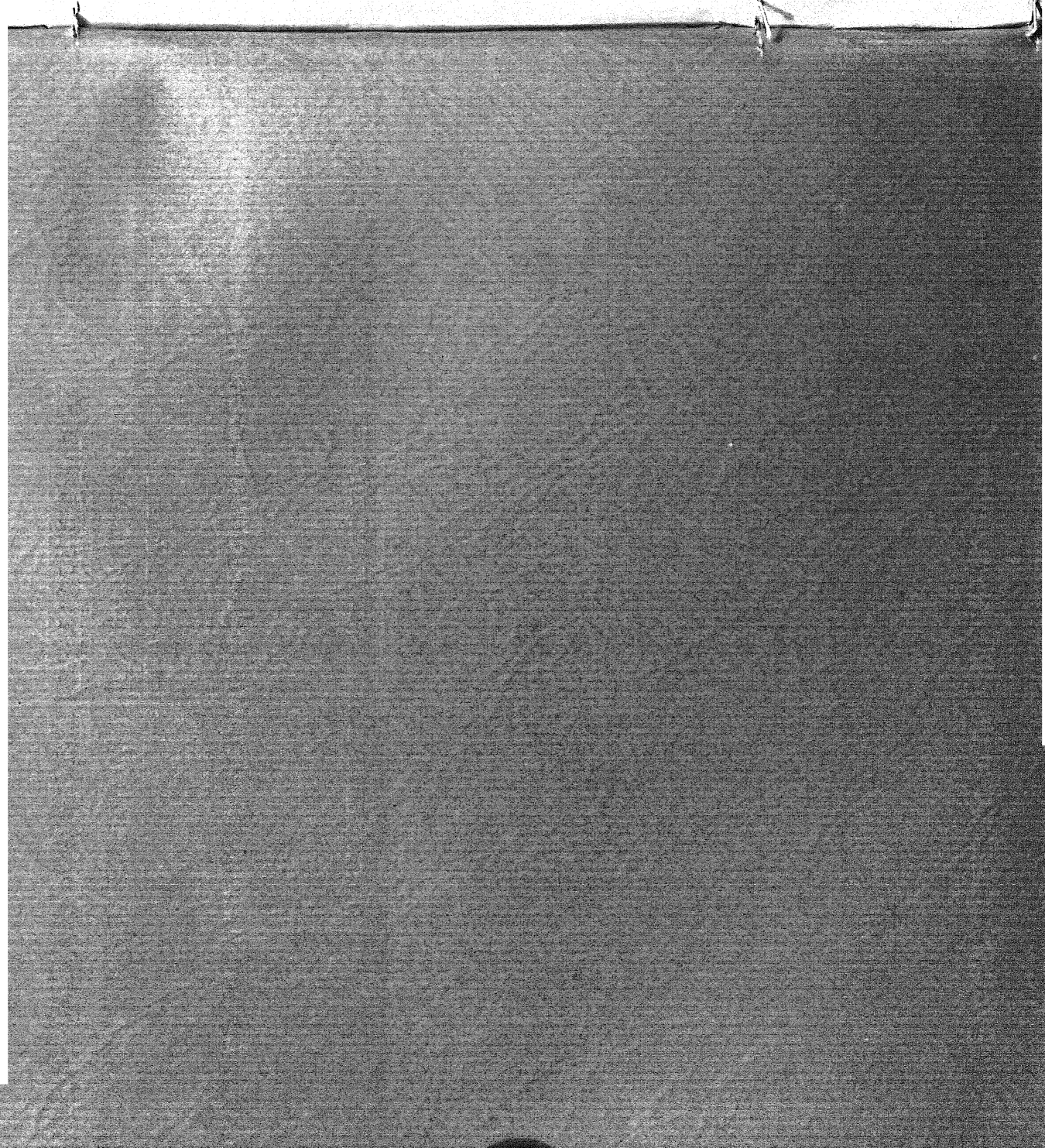
SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

THE MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES IN THE PHILIPPINES[1]

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Paper No. 29

1. Paper prepared by Mr. German T. Danque who is Staff Industrial Engineer and Chief, Engineering & Technology Services, Office of Economic Co-ordination, Republic of the Philippines, with minor editorial changes by the ECAFE secretariat.



THE MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES IN THE PHILIPPINES*

By

GERMAN T. DANQUE

The real period of industrial development in the Philippines may be counted from the days following the inauguration of the Philippine Republic, for it was only then its political leaders realized the necessity of aspiring for economic independence, at least in a relative sense, after political independence.

In 1916, the Philippine Legislature, by virtue of Act No. 2574, authorized the purchase of the Manila Railroad Company by the Philippine Government. The purchase of the Company was apparently decided upon in order (1) to liquidate the accounts of this Company with the Government and (2) that the government may have at its disposal and control, means to transport products to the different points where they may be sold locally or to the ports from where they may be exported abroad.

In the same year, the Philippine Legislature also approved Act No. 2612, creating the Philippine National Bank so that the Government through the said bank may grant credit to agriculture, commerce and industry, and thereby accelerate the country's economic development. In 1919, the Legislature again passed Act No. 2849, creating the National Development Company (NDC) to "promote and maintain a general production by an efficient coordination of the productive forces of the country, or otherwise, and to secure a stable market for Philippine products", and to pursue those objectives the Company was authorized to "engage in commercial, industrial and other enterprises which may be necessary or contributory to the economic development of the country or important in the pubic interest."

In the first year of the Commonwealth, the National Assembly, by virtue of Commonwealth Act No. 182, converted the NDC from a private corporation that it was, into the public corporation that it is today, in order that it could serve as an agency of the Commonwealth of the Philippines in the furtherance of its economic policies, and this was later on amended by Commonwealth Act No. 311 which granted the Company such additional powers as have been found to be necessary in order to enable it to fulfil its

*The data, reports, legislation, description, and experiences cited are primarily based on and cover the operations of the government owned/or controlled corporations under the supervision of the Office of Economic Coordination, Republic of the Philippines, which activities are industrial in nature.

Grateful acknowledgement is due to Secretary Pable M. Cruz, Acting Administrator, Office of Economic Coordination; Atty. Severino M. Salang, Department Legal Counsel; Mr. Diosdado J. Flor, Chief, Budget and Finance Administration; and to the other personnel of the OEC for their help and guidance and through whose cooperative efforts made possible the preparation of this paper.

mission with greater efficiency. Under its present charter, the Company can undertake any activity that may be found necessary to bring about national self-sufficiency and to develop foreign trade.

At the time of inauguration of the Commonwealth, the new Government made a survey of all the problems, political, cultural, economic, etc., that needed adjustments, development and stabilization. In the economic adjustment work undertaken by the Commonwealth Government to prepare a stable economy for the independence of the Philippines, the Government decided to finance from its own resources as much of the necessary major economic activities as the capital already invested in the Philippines could not or would not handle. As this approach seemed to be the only way open to the Commonwealth Government to re-direct its economic system, it granted through the NDC the agencies that were considered necessary to implement the adjustment plans among which were the following :

(1) Cebu Portland Cement Company (CEPOC)
(2) National Rice and Corn Corporation (NARIC)
(3) National Food Products Corporation (NFPC)
(4) Insular Sugar Refining Corporation (INSUREFCO)
(5) National Footwear Corporation (NFC)
(6) National Warehousing Corporation (NWC)
(7) People's Homesite and Housing Corporation (PHHC)

There are certain development projects which, by their very nature, cannot easily be undertaken by private initiative. These projects require enormous outlays which only the Government, due to its greater financial and credit resources, is in a position to undertake. Some instances in this case that may be cited are power development projects under the National Power Corporation (NPC), such as the Maria Cristina and the Ambuklao hydroelectric plants. Private industrialists hesitated to venture into such field, not only because of the huge initial outlay necessary, but also of the long period of time required before the enterprise would start earning profits.

The same may be said of the steel mills and the shipways of the National Shipyards and Steel Corporation (NASSCO). The erection of such establishment is necessary for the industrial development of the country. The tremendous steel requirements of the country, which, at present, is being filled by importation, can be fully absorbed by the contemplated output of the NASSCO and other local steel plants. Considering that these projects call for the production of a material essential in the reconstruction of the economy of the country, it is not feasible at this time to lease the field entirely in the hands of private parties.

Although a central agency known as the National Economic Control Board (NECB) was created in 1941 whose purpose was to co-ordinate and oversee the operation of the state firms, it was not able to function effectively as war broke out several months later. In 1947, the NECB was abolished and was replaced by the Government Enterprises Council (GEC), whose functions in turn were taken over by the Department of Economic Co-ordination (DEC) which was created under Executive Order No.3 19, dated 25 May, 1950. The present Office of Economic Coordination (OEC), an instrumentality which supervises the government owned or controlled corporations, was created under Executive Order No. 386, issued by the President of the Philippines on 22 December, 1950, by virtue of the powers vested in him by Republic Act No. 422, otherwise known as the Reorganization Law.

The government corporations had been entrusted with the broad functions of improving the Philippine economy, industrial and agricultural production and development including generation of power, public utilities and financing. It is noted also that the government corporations in the Philippines have been charged with the attainment not only of the economic

developments but also of social objectives. Amelioration of the masses in urban and rural areas is primarily a government function. Normally, the task is entrusted to a regular government unit. In view, however, of the the exigencies of the times, specially so after the Second World War some activities have been entrusted to government corporations. Some of the corporate instrumentalities whose functions were mostly of social nature were the National Charity Sweepstake Office (NCSO), the People's Homesite and Housing Corporation (PHHC), the National Resettlement and Rehabilitation Administration (NARRA), etc. It may be stated in passing that the successful attainment of industrial and social objectives is clearly related with economic laws. It is hard to conceive social improvements without a corresponding increase in the economic field of the country.

CORPORATIONS IN THE OEC GROUP

As of this writing, the Corporations that have assets of over a billion pesos are only the twelve under the OEC or those in the so-called OEC Group.

These twelve corporations are classified in accordance with the nature of their activities:

Group I—Industrialization, production and development

Name of Corporation	*Activities or business*
1. CEPOC	Cement, coal and marble.
2. NDC	Textile, stock investments, land distribution, cotton and ramie growing and inter-ocean shipping.
3. NPC	Hydroelectric power and fertilizer.
4. NASSCO	Steel, shipyards, reparation tools and repair shops.

Group II—Public service and utilities

5. MGC	Gas, coal tar and appliances.
6. MHC	Hostelry.
7. MRRCo	Railway and bus transportation.
(*a*) MPS	Arrastre services.
8. PAL	Air transportation.

Group III—Social development

9. GSIS	Life, properties and retirement insurance.
10. PHHC	Low-cost housing and subdivisions.

Group IV—Procurement and distribution

11. NARIC	Procurement and distribution of rice and corn and price stabilization.

Group V—Scientific and technology research

12. IST*	Research.

SCOPE AND IMPORTANCE OF THE PUBLIC INDUSTRY WITHIN THE COUNTRY

The magnitude that the corporations play in the economy of the country may be gleaned from a summary of the annual reports of the Office of Economic Coordination for the fiscal years 1955-56, 1957-58 and 1958-59, as indicated below:

*Transferred to NSDB by R. A. No. 1606, as amended by R. A. No. 2067.

Highlights of operations and achievements of corporations and agent for FY 1957, 1958, and 1959.

(*a*) *General*

	1958-59	*1957-58*	*1956-57*
(1) Taxes paid to the Govt. (million pesos)	3.544	3.207	5.346
(2) Persons employed	30,190	38,855	25,886
(3) Salaries and wages paid (million pesos)	64.029	61.006	54.412
(4) Profit made (million pesos)	18.479	20.983	22.050
(5) Net Worth (million pesos)	191.372	180.620	169.037
(6) Total Assets (million pesos)	1,335.738	1,180.275	1,000.223

(*b*) *Industrial production and other statistics*

	1958-59	*1957-58*	*1956-57*
Cement—bags (CEPOC)	5,030,805	4,225,474	4,289,085
Coal—tons (CEPOC)	26,445.02	50,370.89	91,609.10
Yarn—kg (NDC)	817,355.93	809,835.59	989,193.00
Cotton piece goods (Textile) Yd (NDC)	11,154,957.50	11,456,431.20	18,119,355.93
Seed cotton (Cotton project) Kg. (NDC)	696,332.60	294,863.30	418,568.12
Electric energy sold—(NPC)	711,506,304.28	575,654,273.89	468,973,369.25
Anhydrous Ammonia—m.t. (NPC)	10,230.21	8,673.27	7,110.15
Sulphuric acid—m.t. (NPC)	28,081.60	27,084.99	20,884.03
Ammonium sulphate fertilizer (bulk) m.t. (NPC)	37,015.67	32,803.91	26,410.87
Steel bars—tons (NASSCO)	8,623.08	17,190.01	14,332.85
Ships repaired and drydocking, number (MASSCO)	31	40	39
Sales of reparation tools, number (NASSCO)	292	363	526
Receipts from EIS job orders (million pesos)—(NASSCO)	1.348	2.067	1.459
Vessels lengthened—number (NASSCO)	1	2	12

(*c*) *Public services and utilities*

	1958-59	*1957-58*	*1956-57*
Gas produced—cu.m. (MGC)	11,098,780	10,676,294	9,332,067
Residual tar produced—gals. (MGC)	580,794	526,790.10	437,952.03
Passengers, Air—number (PAL)	573,073	471,499	412,419
Cargo transported, Air—tons (PAL)	9,373	8,612	6,740
Passengers, Railway (MRRCo)	9,475,973	8,933,248	8,620,583
Passengers, Bus lines (MRRCo)	4,761,650	4,535,020	3,760,050
Freight Cargo, Railway tons (MRRCo)	1,186,749	1,314,231	1,190,392

Express Cargo, Railway tons (MRRCo)	55,437	57,092	56,255
Import Cargo Handled—tons (MPS)	*	1,439,474	1,456,174
Export Cargo Handled—tons (MPS)	*	31,801	26,495
Transit & International Cargo Handled—tons (MPS)	*	6,700	6,710
Shipside & Bulk Cargo Handled—tons (MPS)	*	1,177,578	666,736
Passengers (Dona vessels) number (NDC)	152	164	201
Cargo transported (Dona Vessels) tons (NDC)	101,704.82	90,827.60	121,745.12
Customers Served—estimated number (MHC)	196,000	190,000	180,000

(*d*) *Social development*

	1958-59	*1957-58*	*1956-57*
Life insurance policies written, million pesos (GSIS)	83.327	70.560	90.669
Retirement insurance—no. of members (GSIS)	225,033**	214,010**	195,687**
Property insurance written million pesos (GSIS)	803.699**	790.138**	718.503**
Benefits paid—million pesos (GSIS)	28.850	32.674	25.962
Investments made (GSIS)—			
1. Loans granted—			
(*a*) Salary loan (million pesos)	40.474	34.941	37.389
(*b*) Policy loan (million pesos)	14.546	10.254	11.176
(*c*) Real estate loan (million pesos)	21.427	43.756	24.833
Cash collections —million pesos (GSIS)	134.922	120.708	170.45
Tenants served (Sabani Estate) number (NDC)	664	634	615
Housing units completed (PHHC) No.	540	385	1,546
Housing units sold—number (PHHC)	186	460	363
Families benefited by low rental housing No. (PHHC)	9,496	9,307	8,688
Lots sold (PHHC)			
(*a*) Lots—number	1,448	1,675	727
(*b*) Area—square metres	723,251.1	1,007,053.4	434,421.5
(*c*) Cost in million pesos (selling price)	8.494	10,998	3.449

*No data available in OEC.
**Total at the end of fiscal year.

(e) *Procurement and distribution*

	1958-59	1957-58	1956-57
Palay purchase locally, cavans (NARIC)	*	3,200,000	2,800,000
Rice Imported—cavans, 56 kl net (NARIC)	*	2,087,875.00	538,486.00
Rice sold—cavans, 56 kl (NARIC)	*	3,921,039	2,135,860
Corn purchased locally—cavans (NARIC)	*	914,935.00	211,000.00
Corn sold, Imported—cavans (NARIC)	*	157,973.00	..
Corn sold, local—cavans (NARIC)	*	178,711.00	348,734.00
Rice and corn mixed sold—cavans (NARIC)	*	50,327.00	16,095.00

During the FY 1958, the major commodities produced by public industrial enterprises and their approximate percentages to total national production and to total domestic consumption were as follows:

Commodity	*Quantity*	*percentage of total national production*	*Percentage of total domestic consumption*
Anhydrous Ammonia	8,673 M.T.	100	97.2
Ammonium Sulphate Fertilizer	32,803 „	100	48.9
Cement	4,225,000 bags	29.8	26.7
Coal	50,370 M.T.	33.4	33.39
Cotton Piece Goods	11,456,000 Yd	12.8	0.81
Cotton Yarn	810,000 Kg	20.5	7.23
Cotton Seeds	295,000 Kg	100	96
Electric Energy	575,754,274 kWh	34.6	34.6
Steel Bars	17,190 M.T.	29.0	29.0
Sulfuric Acid	27,085 M.T.	91.1	91.1
City Gas	10,676,294 C.M.	100	100

There are in operation 25 public factories and plants located in various parts of the country, which produced these commodities and are itemized as follows :

Fertilizer plant (NPC)	1
Cement plant (CEPOC)	1
Coal mines (CEPOC)	2
Textile mills (NDC)	2
Cotton project (NDC)	1
Hydroelectric plants (NPC)	11
Diesel electric plants (NPC)	2
Steel mill (Merchant Bar) (NASSCO) ..	1
Shipyard (NASSCO)	1
Metal fabricating and repair shops (NASSCO) ..	2
City gas plant (MGC)	1
TOTAL	25

RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The result of combined operations and financial condition of the corporations in the OEC group as reported in the annual report of the OEC for FY 1958 is quoted as follows :

(A) *Financial operation*—The combined financial operation of the 12 corporations in the OEC group during the year under review showed

*No data available in OEC.

a decrease of 1.066 million pesos, compared to the previous year, as a result of the recent world-wide business recession which directly affected NDC in the Philippine National Lines and MPS. Hereunder are the salient features of the results of the combined operation during the period.

(*a*) *Income*

The gross income amounted to 336.454 million pesos as against 278.053 million pesos in the previous fiscal year, showing an increase of 58.401 million pesos or about 21 %. This income helped stabilize prices of cereals, textiles, cement, fertilizer, and steel for the consuming public; construction of low-cost housing for the low-income families; generation of electric power and gas service at low cost to promote industrialization; maintain reasonable transportation rates and improved services; and provide funds for realty and salary loans, insurance coverage, etc.

(*b*) *Expenses*

The total cost of sales and other operating expenses amounted to 315.471 million pesos. This brought about the employment of over 28,837 persons who received 61.006 million pesos in salaries and wages; standardization of the cost of commodities and/or services sold, thereby benefiting ultimately the general public; and earning for the government of 3.207 million pesos in taxes for the lending institutions of 13.94 million pesos by way of interest charges on money borrowed, and conservation of dollar reserves due to the reduction in importation and production of needed goods.

(*c*) *Profit*

The overall net profit which amounted to over 20.98 million pesos, in effect, helped preserve capital investment; particularly answered for expansion; and proved to private capital the possibility of a fair return on investment to attract it to take over.

This Office (OEC) has directed corporations which made reasonable profits such as the NPC and MRRCo, to use portions thereof for payment of their matured amortizations, especially interests unpaid.

For a bird's eye view of the status of the financial operation of each individual corporation, there is hereunder presented a comparison of profits and losses in fiscal years 1958 and 1957.

	PROFIT (Loss)		*(million Pesos)*
	1958	*1957*	*Increase (Decrease)*
Cebu Portland Cement Company	0.136	0.674	(0.538)
Government Service Insurance System	7.283	6.550	0.633
Institute of Science and Technology	0.154	0.067	0.087
Manila Gas Corporation	0.709	0.759	(0.050)
Manila Hotel Corporation	0.119	0.103	0.016
Manila Railroad Company	4.216	3.644	0.572
(*a*) Manila Post Service	0.800	1.671	(0.871)
National Development Company	(0.818)	1.291	(2.109)
National Power Corporation	1.132	0.206	0.926
National Rice and Corn Corporation	1.115	(0.586)	1.701
National Shipyards and Steel Corporation	0.013	0.459	0.558
Philippine Homesite and Housing Corporation	2.586	2.028	0.558
Philippine Air Lines	3.538	5.084	(1.546)
TOTAL	20.983	22.050	(1.067)

NOTES

The overall net profit of the corporations and agencies may be attributed principally to :

(*a*) More efficient management;
(*b*) Rigid economy through effective budgetary control;
(*c*) Better and more economical methods of operations;
(*d*) Effective implementation of economic plans; and
(*e*) Increase in the volume of business and proportionate decrease in production costs.

(B) *Financial condition—*

(*d*) *Assets*

As of 30 June 1958, the value of all assets of the corporations and agencies in the OEC group amounted to over a billion pesos. The breakdown of these assets is shown as follows:

Current Assets	264.340	million pesos
Investments	420.139	,,
Fixed Assets (Net)	436.447	,,
Deferred Charges	26.574	,,
Other assets	32.775	,,
	1,180.275	million pesos

It is to be noted that the corporations in the OEC group have continued to expand and improve their services and to increase their benefits to the public. They cover broad sectors of the national economy, such as the production of essential commodities as gas, cement, steel, textiles and fertilizers; transportation, like shipping, railroad and airlines; scientific and technological research; construction of low-cost housing units; procurement and distribution of cereals; and generation of electric power to promote industrialization.

(*e*) *Liabilities*

As of 30 June 1958, the toal liabilities aggregated 999,655 million pesos, broken down as follows:

Current liabilities	138.368	million pesos
Fixed (Long-term debts)	447.547	,,
Deferred credits	38.851	,,
Liability reserves	359.779	,,
Other liabilities	15.110	,,
TOTAL	999.655	million pesos

Following is a statement of the status of Long-term debts, as of the end of the fiscal year :

Total amount of principal	465,389,551.71 pesos
Less : Payments made	21,188,330.09 pesos
Balance of loan	444,201,221.62 pesos

Status of amortization on above loan in pesos:

	Principal	*Interest*	*Total*
Amortization due	120,451,848.79	70,687,752.82	201,139,601.61
Amortization paid	21,188,330,09	39,708,530.60	60,896,860.69
Amortization unpaid	109,263,518.70	30,879,222.22	140,242,740.92

Because of the inadequacy of paid-up capital, some corporations had to borrow much beyond the safe margin of capital

equity in order that they may be able to undertake certain projects designed to bolster the national economy and to expand those already started to accelerate the economic development of the country.

(*f*) *Net worth*

As of 30 June, 1958, the total net worth of the 12 corporations in the OEC group amounted to 180.62 million pesos. The magnitude of the borrowing to which these government corporations had to resort to maintain their operations can readily be seen when the total net value of the assets is considered to be over a billion pesos. The comparative status or proportion indicates strong dependence on borrowed money.

SUPERVISION OF GOVERNMENT CORPORATIONS

It is believed that corporations engaged in general economical development should be placed under a central authority.

Implementing most of the recommendations of the Committee on Reorganization of Government Owned or Controlled Corporations created in 1950, a central authority was devised, by the creation of the Office of Economic Co-ordination, known as the OEC. Acting pursuant to the power granted him by law under Republic Act No. 422 to reorganize the Government, President Quirino issued Executive Order No. 386 creating the OEC cited above.

POWERS OF THE OEC

The powers then of the OEC as the central authority over the economic development corporations are defined in said Executive Order No. 386 (which, although an Executive Order only but having been issued by virtue of the reorganization powers of the President granted by law, has nevertheless the force of law). Said powers and/or authority are the same powers and/or authority granted to its Administrator. As stated in Section 3 thereof, said powers, functions and authority are :

SEC. 3. The Administrator shall :

"(*a*) direct, coordinate, and supervise the implementation of the economic rehabilitation and development programme, which may be undertaken by the Government with financial assistance in loans and grants from the United States, and adopt such policies and measures as may be necessary to provide for and obtain effective, efficient, economical and integrated execution of the said economic rehabilitation and development programme through corporations owned or controlled by the Government, or other instrumentalities now existing or which may hereafter be formed or organized for the development of the national economy, and through participation by private enterprise, with the view to extending to the greatest number among the masses their just share in the benefits of a more productive and stable economy.

"(*b*) supervise, as a vigilant stockholder, corporations owned or controlled by the Government (except the Central Bank of the Philippines, the Rehabilitation Finance Corporation and the Philippine National Bank) for the purpose of insuring efficiency and economy in their operations and effective accomplishments of the objectives for which they were created, and to this end

"(1) vote the shares of stock owned by the government and by its instrumentalities and exercise all the rights of a stockholder in stock corporations owned or controlled by the

government, and recommend to the President of the Philippines changes in, and the persons to be selected as, members of the boards of directors and managing heads of both stock and nonstock corporations and instrumentalities;

"(2) pass upon new development programmes and projects, and upon programmes of activities and annual and supplemental budgets of income and expenditures approved by the respective boards of directors of the said corporations;

"(3) cause periodic checks, analysis and appraisals of accomplishments, and financial operations and condition of the said corporations.

"(*c*) carry out the policies and measures formulated, and projects recommended by the National Economic Council and duly approved by the President of the Philippines, affecting government-owned or controlled corporations;

"(*d*) perform such other functions, as may be directed or delegated to the Administrator by the President of the Philippines, or as may be authorized by law."

It was originally intended for the OEC to be the agency to "direct, coordinate and supervise the implementation of such programme," as well as to "adopt such policies and measures as may be necessary to provide for and obtain effective, efficient, economic and integrated execution of the said ...programmes."

The power therein conferred as above-mentioned was, however, to be exercised "with the view to extending to the greatest number among the masses their just share in the benefits of more productive and stable economy."

However, a little time later, another office known as the Philippine Council on United States Aid (PHILCUSA) was likewise created which furthermore was placed under the National Economic Council (NEC).

This latter Office handled thenceforth the problems relating to aids from the United States that were given through channels other than the development corporations.

OEC SUPERVISORY POWERS

What appears as the major and controlling function and/or power of the OEC however, is found in the function and/or power of the Administrator, to wit :

"*Supervise, as a vigilant stockholder*, corporations owned or controlled by the government (except the Central Bank, Rehabilitation Finance Corporation and the Philippine National Bank)."

The Government Corporate Counsel (GCC), commenting on such power, states in an opinion* that :

"The power of the President of the Philippines as a 'vigilant stockholder', therefore, should not be likened and compared strictly with the rights of the stockholders of purely private corporations. With the growing tendency of recognizing that the Government in the promotion of the security and welfare of the people may itself carry on certain business activities, it is probable that the decision in the case of National Coal Co. v Coll. of the Internal Revenue (46 Phil-583, ruling that the mere fact that the Government happens to be a majority stockholder does not transform such business enterprise into a public corporation), has been to some extent impaired. (Fernando Municipal Corporation, p.3)

*GCC Opinion No. 89, s. of 1957.

"We believe that although the Board of Directors is empowered under Sec. 9(*a*) of Republic Act No. 663 to appoint the General Manager, making no mention of further consent of confirmation of some other authority, the President is not precluded from exercising his power of supervision and control over appointments. The law (R.A. No. 663) does not specifically mention that supervision and control over appointments were divested from the President, and even if he was so specifically divested, said action would be of doubtful legality. While the legislative branch may create an office, it is for the Executive to fill it. Thus, in the case of the Government of the Philippine Island v. Springer, 50 Phil. 259, the Supreme Court held that the incorporation of a government owned or controlled corporation does not serve to disconnect the same from the Government and executive control and that it remains an agency or instrumentalities of the Government.

"The incorporation of the National Coal Company has not served to disconnect the Company of the stock which the Government owns in it from the Government and executive control... Unlike the Government, the Corporation may be sued without its consent, and is subject to taxation. Yet the National Coal Company remains an agency or instrumentality of the Government...

"It further is incontrovertible that the Government, like any other stockholder, is justified in intervening, in the transactions in the corporation, and in protecting its property rights in the corporation. Public funds were appropriated to create the National Coal Company. These funds were used to purchase stock. The voting of the government stock is the prerogative of the corporations. It is a transaction, but not of, the corporation. The stock is property. The Government, the owner of the majority stock in the company, naturally dominates the management of its property. The Government may enforce its policies and secure relief and through the corporation and as a stockholder.

"Based on all the foregoing considerations, we deduce that the power of appointment in the Philippines appertains, with minor exceptions, to the executive department; that membership in the voting committe in question is an office of executive function; that the National Coal Company and similar corporations are instrumentalities of the Government, that the duty to look after government agencies and government property belongs to the executive department :...

"We believe further, that all employees...are under the 'control and supervision' of the President unless the President waives the said right over some of the employees as he did over subordinate officers in Section 12 of Executive Order No. 399. In the absence of said waiver. the President may exercise either by himself or through some deligated body, his opower of 'supervision and control'.

"The President in the exercise of his power of 'supervision and control' as a vigilant stockholder of government owned or controlled corporations, for the purpose of 'insuring efficiency and economy in their operations and effective accomplishments of the objectives from which they are created' [*Sec.* 3(*b*) of Executive Order No. 386], may approve, disapprove or may modify rates of compensation for appointments whether original or promotional, regardless of the recommendation of the NARIC Board of Directors. The President's freedom of action in this case cannot be limited to the powers and rights enjoyed by stockholders of purely private corporations as the NARIC is a 'public quasi-corporation'."

OBSTACLES FACING THE OEC

If there is a weight to the opinion however, that the OEC has not been more successful in co-ordinating government in business or in the direction

of the country's development economy—it may well be because of a major defect in its basic law.

Section 4 of Executive Order No. 386 provides:

> "The provisions of Section 3(*b*) hereof notwithstanding, the Boards of Directors of the corporations owned or controlled by the Government shall maintain their autonomy, subject only to such public policy as may be established or as directed by the President."

The Section 4 tends to nullify in many instances the functions of the OEC under Section 3 of Executive Order No. 396.

It may have been inserted in the law because of the inherent and basic nature of a corporation, in general. However, the dividing line between corporate matters over which the Board of Directors should have autonomy is sometimes not clearly defined or distinguished from those involving "public policy". The result is that, in practice, there has been cast a shadow over OEC's supervisory authority. In fact, it has been necessary on many occasions, for the President to issue, as he has issued, directives to clarify this point.

Because of this section which, as mentioned, casts a shadow of doubt on the OEC's powers and authority—certain corporations at sometime or another maintain what it seems aloofness or coolness as against the supposed central authority.

Another factor that appears to aggravate the situation mentioned above, is the fact that most managers of the corporations in the OEC group receive higher salaries than the very OEC Administrator. For although the latter indeed has Cabinet rank and pay, that is however only 12,000.00 pesos per annum. Whereas, certain corporation managers receive 20,000.00 pesos or even more. Again, this contributes in no small measure to certain corporations' feeling of superiority over the central directing body.

THE PRESIDENT'S POLICY REGARDING THE OEC

The above-mentioned corporate indifferences to the OEC has somewhat been dispelled however, because pursuant to the self same Section 4, the President in the recently passed administration has on two occasions laid down the policy on this matter of corporate autonomy, as regards the OEC.

Thus, the President directed that :

> "...the Office of Economic Co-ordination require government owned or controlled corporations under its jurisdiction to report to that Office all corporate transactions of a major character, particularly those involving awards of contracts for the needs and operations of said corporations, so that the same may be reviewed by that Office or approved, if the latter is required..."

Again, barely seven months later—he issued another directive that :

> "...the governing bodies and management thereof submit to you for appropriate action all matters involving corporate policies including the pricing of the goods produced, and the disposal of properties owned by them."

Citing the later directive, on 24 July, 1957, the Government Corporate Counsel in part of his Opinion No. 137 stated the following :

> "In order to implement the above-mentioned directive of the President, on August 23, 1954, the Administrator of Economic Coordination issued OEC General Circular No. 14 for the guidance of 'The Chairman of Governing Boards, Managing Heads and Auditors of Government owned or controlled corporations in the OEC Group,' which is textually as follows:

(1) Corporate policies adopted by the Board of Directors and/or Management, including the pricing of goods produced and the disposal of corporate properties, shall not take effect until approved by the Office of Economic Coordination.

(2) All resolutions, except those purely administrative in character, upon being finally adopted by the Board of Directors, shall, within seventy-two (72) hours from their adoption, be submitted to the Office of Economic Co-ordination for approval.

(3) Pending approval of any resolution, no action shall be taken thereon, except for very extraordinary reasons or emergency have been previously taken up by Chairman of Board of Directors or the General Manager, as the case may be, with the Administrator of Economic Co-ordination; Provided, that resolutions adopted pursuant to directive of the Office of Economic Coordination shall be carried out or implemented without need of further approval by OEC of said resolutions.

(4) The Administrator of Economic Coordination shall be immediately consulted about urgent matters. Subjects of consultation shall be related in appropriate memoranda, stating facts of the case or matter; issues or policies involved; and, action contemplated thereon by the Board of Directors and/or the Management.'

"From the foregoing, it is clear that corporate policies of government corporations do not take effect until approved by the OEC. Since CEPOC is a corporation owned or controlled by the government, its corporate policies, such as profit-sharing and Christmas Bonus treated in Articles II and V of the Bargaining of Agreement of February 1, 1957, hereinabove referred to, must be approved by the OEC. Such being the case, the consent or acceptance made by CEPOC on 'Profit-Sharing' and 'Christmas Bonus' mentioned in Articles II and V of the Agreement, was not absolutely qualified, the qualification being that its action was subject to approval by OEC. Since OEC disapproved the same, CEPOC cannot legally be deemed to have given its consent and therefore is not legally bound by the provisions on 'Profit-Sharing' and 'Christmas Bonus' as now worded in the Bargaining Agreement of February 1, 1957.

"It may be contended by the labour unions that whatever matters relative to terms on conditions of employment arrived at in the said Agreement, are final and binding, in accordance with the following provisions of the New Civil Code, to wit:

'ART. 1306.—The contracting parties may establish such stipulations, clauses, terms and conditions as they may deem convenient, provided they are not contrary to law, morals, good customs, public order, or public policy.

'ART. 1308.—The contract must bind both contracting parties, its validity or compliance cannot be left to the will of one of them.

'ART. 1700.—The relations between capital and labour are not merely contractual. They are so impressed with public interest that labour contracts must yield to the common good. Therefore, such contracts are subject to the special laws, on labour unions, collective bargaining, strikes and lockouts, closed shop, wages, working conditions, hours of labour and similar subjects.

'ART. 1704.—In collective bargaining, the labour union or members of the board or committee signing the contract shall be liable for the non-fulfilment thereof.'

"However, in the case of the Government of the Philippine Islands vs. Springer 50 Phil. 259, 288, the Supreme Court held that 'the incorporation of a government-owned or controlled corporations does not serve to disconnect the same from the Government and the executive control and that it remains an agency or instrumentalities of the Government and that the duty to look after government agencies and government properties belong to the Executive Department. When labour unions enter into collective bargaining agreements with government owned or controlled corporations, they must understand, that, insofar as matters pertaining to corporate policies are concerned, the said agreement may be subject to corresponding approval, adjustments or changes to be made by a superior coordinating body, the Office of Economic Coordination, and until such confirmation is obtained the contract is not yet perfected and consequently not yet legally binding and enforceable."

CHARACTERISTICS OF THE GOVERNMENT CORPORATION

The government corporation has been described as an administrative agency through which the state can perform functions with greater flexibility than is normally possible through the Government itself or its subdivisions. Essentially, in the creation of government corporations the Government waives some of its sovereign immunities within limited and defined areas, and empowers its agency, the corporation, to act in its own name in entering into contracts; empowers it to obtain revenues through borrowing and/or making charges for services or, otherwise, to exercise a degree of independent judgment in the expenditure or use of money which it has acquired independently or which has been appropriated to it; to sue and be sued; and frequently to operate, in general, outside the rules and regulations applicable to government departments and their components, especially those pertaining to finances and personnel.

Unlike many other countries, under the Philippine Constitution, the Government is specifically entitled to actively "establish and operate industries and means of transportation and communication". With the Government faced with pressing economic and social problems it has been deemed necessary to engage in manufacturing, finance, and commercial activities as well as to control and regulate them. The corporate device has been employed to enable the government to do business on an equal legal footing with private companies.

The selection of the corporate device, rather than use of a government agency, depends primarily on the methods the Government will utilize in achieving its purposes and objectives. As has been stated, "Use of a government corporation (in preference to an agency) is indicated when a proposed programme is to be revenue-producing, substantially self-sustaining and involves a large number of commercial transactions with the public." While government corporations provide the proper administrative vehicle to achieve certain governmental purposes, they are no miracle-working devices. They require the same degree of organization and management as any other administrative body if they are to accomplish their purpose.

The most important consideration in determining whether a government corporation should be set up, continued or discontinued, is the social or economic purpose that it is presumed to serve. It can be conceded that government corporations should not exist particularly in the manufacturing and commercial fields, if private capital and private enterprises are available. Private capital, however, may be reluctant to enter into a field for a number of reasons, including the investment required, the low profit to investment ratio, the risk involved, or the actual lack of technical know-how.

Government corporations may also be necessary where savings of foreign exchange are desired, where, for national policy reasons, it may be required to control prices of certain prime commodities, to compete with aliens, and provide imported goods at a reasonable price, or to provide

social and economic benefits to a segment of the population. The Government may find it necessary to operate such corporations at a financial loss for a period of time.

CRITERIA FOR JUDGING THE EFFECTIVENESS OF A CORPORATION

In approaching the problem of government corporations, it is important to determine the criteria against which their effectiveness can be judged.

Most private corporations either make or lose money on the basis of the effectiveness of their management and the shrewdness of their market-place judgment. The government corporation, however, can frequently use the administrative power of the Government to insure a profit rather than attempt to secure profit through good management and sound market-place judgment.

The question of whether it makes profit or loss, therefore, is largely a matter of the rules under which it operates rather than a valid criterion of the effectiveness of government operation of the corporation. For instance, a government corporation can either pay rent on its properties or interest on its investment, or it can be relieved of such expenses. It can charge a rate higher or lower than necessary to meet its expenses in the case of those industries in which the government has a monopoly.

An example of the government's ability to control the profit or loss of a government corporation is provided by the Manila Railroad Company, which used to lose over 2,000,000.00 pesos annually. If it were to have a certain type of commercial highway transit limited within 100 kilometres of its lines, as has been proposed, the increased volume, coupled with a virtual monopoly on transportation, would no doubt enable the MRRCo to show profit. In such a case, however, every shipper would be paying the expenses of the Manila Railroad Company in the form of higher rates.

Similarly, the National Development Company's textile mills, which now operate at a profit, are able to do so primarily because they are able to charge a higher-than-market price to other government agencies. If government agencies purchased textiles from the lowest bidder, the National Development Company would be forced to sell textiles at a lower cost or go out of business. In other words, the taxpayers and consumers, in one way or another, contribute to the income of each government corporation. Whether this is done indirectly through taxation to make up for corporate expenses, or whether the expenses are met by charges on various segments of the population depends on the type of service provided by the government corporation.

This is not to say that the financial success of a corportion is not important or that it is not of interest to the taxpayers. The criteria for determining the effectiveness of a government corporation, however, are not to be found solely in its financial statements.

Rather, the princial criteria against which a corporation's effectiveness is to be judged are to be found by first determining whether the corporation is accomplishing the social and economic purpose that it was set up to meet with reasonable efficiency and economy. The most profitable corporation is a failure if it fails to accomplish its social, economic, or industrial task. The corporation that sustains losses may be successful if it is accomplishing its assigned task in the most effective manner. Criteria for judging the corporation's effectiveness are also to be found by examining the degree of organizational and management efficiency that it exhibits.

These evaluations can be made by reviewing its organization and operation, examining its progress over a period of time, and by reviewing such matters as labour relations, productivity and production schedules, effectiveness in meeting standards of performance, controlling costs and the state of its physical facilities, overall competency of its management, and its relations with the general public.

TYPES OF GOVERNMENT CORPORATIONS

Government-owned or controlled corporations break down into two principal types. As indicated below, the two types are alike in one respect. That is, the Government tends to assume, in one degree or another, the role of a businessman rather than that of a sovereign.

The first type is a publicly-owned corporation whose functions are closely associated with that of a regular government agency. Although it carries out governmental activities, the nature of its duties requires that it deals with the public as a businessman rather than a sovereign. A typical example of this type of corporation is an agency dealing in farm price support by buying and selling farm products. Such a corporation might well be associated with the Department of Agriculture as only the fact that it must engage in sizable business operations differentiates it from the bureaus of the Department.

This first type also includes the publicly-owned corporations which carry out independent functions unrelated to those of any other government agency but which, nevertheless, operate in the sphere of the Government. It may, like the first type, be charged with responsibilities in some social or economic sphere, but these are usually of broader scope. It also deals with the public or a segment of the public as a businessman. It may, like all public corporations, be clothed temporarily or permanently with some of the powers of the Government. It generally operates independently from any regular government agency, and the importance of its functions are of the order of a regular department. Typical examples are a central bank, or a development corporation.

The second type of corporation is the corporation which operates in the commercial or industrial field under government control, and usually with a degree of government protection. Corporations of this type are prevalent in time of war and economic crises. They may be under government control for a number of reasons but, generally, such control relates to the fact that private enterprises are unwilling or unable to go into a field in which the public requires services or goods. For instance, in the Philippines steel production was attended by unknown or difficult production problems, and by such uncertainties of demand that private business found it unattractive from an investment standpoint. In this case, the Government formed the National Shipyards and Steel Corporation, among other things, for the production and marketing of steel, and has financed and operated the Company itself.

GENERAL AND LEGAL SITUATION

Public industrial enterprises in the Philippines are governed under the "Uniform Charter for Government Corporations" promulgated under Executive Order No. 399, series of 1951, by the President of the Philippines. This Charter provides, among others, the following :

DURATION, PURPOSES AND POWERS OF CORPORATIONS

SECTION 1. *Duration.*—All government owned or controlled corporations shall exist for a period of twenty-five (25) years from the effectivity of this Executive Order.

SECTION 7. *Composition and appointment.*—The corporate powers of the corporation shall be vested in and exercised by a Board of Directors of not more than seven nor less than five members as may be fixed by the President of the Philippines, consisting of a chairman and six or four members, appointed by the President of the Philippines with the consent of the Commission on Appointments. Directors need not be stockholders of the corporation. The said members shall serve as designated by the President in their appointments for terms of one, two and three years, respectively, from the date they qualify and assume office; but their successors shall be

appointed for terms of three years, except that any person chosen to fill a vacancy shall serve only for the unexpired term of the member whom he succeeds. For actual attendance of meetings, each director shall receive a per diem of twenty-five (25) pesos.

SECTION 8. *Powers and duties of the Board of Directors.*—The Board of Directors shall have the following powers and duties:

(*a*) To prescribe, amend and repeal, with the approval of the Administrator of Economic Coordination, by-laws, rules and regulations governing the manner in which the general business of the corporation may be exercised, including provisions for the formation of such committee or committees as the Board of Directors may deem necessary to facilitate its business.

(*b*) To appoint and fix the compensation of the General Manager, subject to the approval of the President of the Philippines and to appoint and fix the compensation of the other officers of the Corporation, with the approval of the Administrator of Economic Coordination. The Board by a majority vote of all the members, may, for cause, and with the approval of the President of the Philippines, suspend and/or remove the General Manager.

(*c*) To approve, subject to the final action of the Administrator of Economic Coordination, the annual and/or such supplemental budgets of the corporation which may be submitted to it by the General Manager from time to time.

SECTION 9. *Suspension and removal of Directors.*—Any member of the Board of Directors may be suspended or removed by the President of the Philippines, solely or upon the recommendation of the Administrator of Economic Coordination.

SECTION 10. *Prohibition for Board members.*—No chairman or member of the Board of Directors of a corporation shall at the same time serve in the corporation in any capacity whatsoever other than as chairman or member thereof, unless otherwise authorized by the President.

MANAGEMENT

SECTION 11. *Managing head.*—The management of the corporation shall be vested in the General Manager.

SECTION 12. *Powers and duties of the General Manager.*—The General Manager shall have the following powers and duties:

(*a*) To direct and manage the affairs and business of the Corporation, on behalf of the Board of Directors, and subject to its control and supervisions;

(*b*) To sit in all meetings of the Board of Directors, and participate in its deliberations, but without the right to vote;

(*c*) To submit within sixty (60) days after the close of each fiscal year an annual report, through the Board of Directors, to the Administrator of Economic Coordination;

(*d*) To appoint and fix the number and salaries, with the approval of the Board of Directors, of such subordinate personnel as may be necessary for the proper discharge of the duties and functions of the Corporation, and with the approval of the Board, to remove, suspend, or otherwise discipline, for cause, any subordinate employee of the Corporation; and

(*e*) To perform such other duties as may be assigned to him by the Board of Directors from time to time.

AUDIT

SECTION 15. *Personnel.*—The Auditor General shall appoint a representative who shall be the Auditor of the corporation, and the necessary

personnel to assist said representative in the performance of his duties. The number and salaries of the Auditor and said personnel shall be determined by the Auditor General, subject to appropriation by the Board of Directors. In case of disagreement, the matter should be submitted to the President of the Philippines whose decision shall be final. Said salaries and all other expenses of maintaining the Auditor's office shall be paid by the corporation.

Ministerial participation of Officials of Cabinet rank in the governing boards is also practised as in the case of the Secretary of Public Works and Communications who is Chairman of the National Power Corporation. There is no legal prohibition in this regard. However, most of the chairmen of the Boards of Directors are recruited from the private sector.

Public corporations in the OEC group are under direct control and supervision of the Administrator of Economic Coordination who is a member of the President's Cabinet. This, therefore, results in a closer and direct coordination in the implementation of Cabinet policies on the corporate level. Another advantage is the expeditious action and decision on matters raised to the Cabinet through the department head. The fact that most of the members of Governing Boards are being recruited from the private sector of the economy, gives the latter an opportunity of representation in formulating policies of the public enterprises.

In several corporations, joint public-private financing is also practised. The NDC acts as the holding company for the Government in private enterprises like in the Manila Gas Corporation (60%), Philippine Air Lines (53%), Philippino Electrical Manufacturing Company (16%), etc. all amounting to about 16,500,000.00 pesos. Except in the case of the MGC and MHC, in joint public-private ventures, the Government has a minority representation in the governing boards.

POSITIONS OF CORPORATION CHIEF EXECUTIVES

The Chief Executive in the corporation is the General Manager. He must be a Filipino citizen. As always practised, he is a highly qualified man with long and broad experience along the line of the activities of the business. His powers and responsibilities are enumerated in the "Uniform Charter" heretofore mentioned. By virtue of Republic Act No. 2966 approved in 1959, the General Manager also acts as Vice-Chairman of the Board and shall sit, participate and vote in the meetings of the Board.

AUDIT CONTROL

As previously mentioned, the financial transactions of corporations are audited by the representatives of the Auditor General under the "Uniform Charter".

Under Republic Act No. 2266 approved recently, the authority and powers of the General Auditing Office were extended and broadened as provided in Section 1 of said Act, quoted as follows:

> "SECTION 1. Section five hundred eighty-four of the Revised Administrative Code is hereby amended to read as follows:
>
> "SECTION 584. General jurisdiction of General Auditing Office.—The authority and powers of the General Auditing Office extend to and comprehend all matters relating to accounting procedure, including the keeping of the accounts of the Government, the preservation of vouchers, the methods of accounting, the examination of the books, records and papers relating to such accounts and to the audit and settlement of the accounts of all persons respecting funds or property received or held by them in an accountable capacity, as well as to the examination, and audit of all debts and claims of any sort due from or coming to the Government of the Philippines in any of its branches. The said jurisdiction shall also extend to all corporations established

and organized in accordance with the laws of the Philippines wherein the Government of the Philippines or any of its branches or any corporation owned or controlled by it owns the majority of stock a well as to all other self-governing board, commission or agency of the Government. In the exercise of this jurisdiction, the Auditor General shall act as the ex-officio auditor of the said corporation, board, commission or agency and, as such, he is empowered and authorized to appoint a representative, known as the auditor, in the said corporation, board, commission or agency and fix the salary thereof in an amount equal to the salary authorized for the first assistant or next ranking managing head of the corporation, board, commission or agency concerned. The Auditor General shall also have the right to appoint, and fix the salaries and the number of the personnel to assist said representative in his work. The expense for the maintenance and operation of his office shall be paid by the corporation, board, commission or agency concerned. Any provision of law or charter to the contrary notwithstanding, such salaries and number of auditing personnel, once fixed by the Auditor General, shall not be thereafter increased, diminished or altered, unless initiated by him. Said representative and his subordinate personnel shall also receive such allowances and privileges as are or shall be allowed or authorized to management personnel having the same rank and/or salary. The necessary appropriations to cover the expenses for the maintenance and operation of the office of said representative shall be provided by the governing board, commission or agency concerned as long as unencumbered capital or surplus funds are available."

COMMON PROBLEMS OF GOVERNMENT CORPORATIONS

Government corporations have been subject to a great deal of justifiable criticism. This type of corporation is liable to suffer large operating losses, because it may enter into a field in which economic possibilities are untested, thus increasing its chances of failure. In addition, it is often subject to attack by political opponents of the administration in power. Finally, if the Government continues its support of the firm after private enterprises have entered the field it will be criticized for having interfered with private enterprise.

Reports by the Government Survey and Reorganization Commission on individual corporations point out many other difficulties. These difficulties stem from common problems affecting most government corporations and ranging from "politics" to poor business and management practices. For instance, the corporations have been subject to politically-inspired decisions which have affected matters ranging from plant location to procurement of personnel. They have been subject, in some cases, to detailed controls to an extent that the Boards of Directors have been stripped of their legitimate areas of discretion. The corporations are also subject to detailed pre-audits by the General Auditing Office. They are subject to Civil Service rules and regulations and to time-consuming government purchasing regulations.

These controls imposed on government corporations prevent them from being responsive to the "market place" in the same sense that a private corporation is responsive. It has led to a sense of frustration on the part of the employees when accomplishment of the legitimate objectives of the corporation is hampered. Many of these controls directly lead to the so-called inefficiency of government corporations. As a result of these hindrances, personnel, organization and operation suffer.

The Commission has also found in the government corporations instances of poor management, too great a diversification of activities, inadequate capital, poor engineering layout of plant facilities, and obsolete equipment. Some of these shortcomings have led to many corporations being grossly over-staffed, thus increasing costs as well as adding to the problems of management.

Another difficult problem faced by government corporations is inadequate financing. In its Annual Report for the FY 1958, the OEC made the following observations :

(*a*) *Financing*—Many of the corporations in the OEC group are inadequately financed and equipped. Of the total authorized capital of 276,627,305.05 pesos for these corporations, less than one-half, or only 128,379,105.05 pesos has been paid up, leaving an unpaid balance of 148,248,200.00, pesos or 53 per cent of the total authorized capital. Of this balance, 2,200,000.00 pesos belongs to the MHC; 110,000,000.00 pesos to the MRRCo.; 23,589,700.00 pesos to the NDC; 4,558,500.00 pesos to the NARIC; and 7,900,000.00 pesos to the PHHC. By force of circumstances, some of these corporations have had to borrow beyond the safe margin of capital equity in order to be able to undertake certain ventures within the purview of their charters, but for which no adequate capital or funds were provided. Inevitably, these inadequately financed government agencies have to bear the burden of paying considerable amounts of amortization and interest charges which, in certain cases, wipe out the expected profits of the corporations, thus adversely affecting their working capital. As a matter of fact, some of these corporations have not yet settled the accumulated amortizations and interest charges due on their long-term debts.

With the exception of the GSIS and IST, corporations in the OEC group are heavily indebted to the PNB, RFC, CB, EIB, and the GSIS. Out of the total liabilities of 999,655 million pesos, 447,547 million pesos are long-term loans incurred by the corporations, which fact shows their dependence upon borrowed money. This financial handicap is aggravated by the fact that releases of funds from the proceeds of bond isues have been slow and inadequate despite the importance and magnitude of the projects already in progress to promote industrialization, transportation, agriculture, and social development. In brief, government corporations under the present conditions, are greatly handicapped by inadequate funds and outmoded plants and equipment.

Employment problem has also beset the corporations in the implementation of the position classification relative to standardized pay, promulgated under executive Order No. 277, dated 7 November 1957. The OEC has made following remarks:

> "It is believed that a rigid application of the wage and position plan to government corporations may frustrate the inherent operational and financial flexibility of corporations whose functions are not exclusively governmental in nature. And while the principle of "equal pay for equal work" is laudable, care should be taken in its application to personnel in government corporations such that the needed operational flexibility, a distinct trait and asset of the corporate device, may not be thwarted. In this connection, it may be said that there are numerous complaints of employees who are dissatisfied or adversely affected by action taken by WAPCO in connection with the classification and allocation of their positions. In fact, in many in-service trainings and conferences, one often hears conferees shouting their objections to the alleged WAPCO misclassifications and pay plans and demanding their immediate re-examination and revision with a view to correcting their adverse effects and inequities."

As regards personnel administration, the OEC Annual Report states:

> "The need to provide training programmes for employees in government corporations is heightened by the fact that personnel recruitment for the public service, be it in said corporations or in the government proper, leaves much to be desired. Since it is difficult, under present circumstances, to place the selection of employees on a more objective basis, the only alternative is to improve whatever skills and knowledge the personnel appointed may possess and to place them in positions where they are best prepared and suited. It is gratifying to

note that some of the government corporations have realized the importance of training and have actually conducted training programmes and/or have provided opportunities for promising and talented employees to undergo training elsewhere, either within the country or abroad. The OEC has occasionally recommended favourably, encouraged and/or approved such training programmes or grants whenever the corporation can afford the expenses, can dispense with the services of the trainee in the meanwhile, and the field of training is useful to the corporation or to the country".

"To the First Agency Management Analyst Training Course conducted under the auspices of the Management Service of the Budget Commission from January 13 to March 7, 1958, the OEC sent two representatives. The purpose of the course was to train management analysts to carry out Management Improvement Programme in their respective agencies, pursuant to the provisions of Executive Order No. 279, dated November 7, 1957, which invests the Budget Commissioner with the functions of management improvement for the promotion of efficiency, economy and effectiveness in government operations. In fact, the creation of a Management Staff in every government agency is the objective of the Management Service of the Budget Commission to enable that Office to coordinate and evaluate the overall government management improvement programme through the assistance and cooperation of the agency management staff analysts. In the OEC, there is no such staff yet due to lack of funds."

Another main problem in government owned industrial enterprises, is their usually high cost of production, a disadvantage for competitive purposes. There is, for instance, the NDC textile industry which survives only competition with private business, particularly these coming from abroad, because of the protection being given by the government, in favour of its own enterprises in the form of importation control and tax exemption. The steel bars can hardly be disposed of on account of their high selling prices due to their high cost of production. This high cost of production is due mainly to the relatively higher wage rates and bigger personnel force.

TRAINING PROGRAMMES

Methods have been developed to create and improve units for assistance to management, such as planning, research, etc. for supervisory level and highly skilled and technical jobs. In-service and in-the-job training is a standard practice in the corporations. In the development and training of supervisors and technicians, the corporations also avail of foreign and local training centres and schools under (1) the training programme of the Industrial Development Centre (IDC) with the co-operation of the International Co-operation Administration (ICA) of the United States of America, (2) the Technical Assistance Programme of the United Nations; (3) the Colombo Plan Technical Aid Programme; (4) the Management Service of the Budget Commission of the Philippine Government; and (5) the Harvard Advanced Management Programme sponsored by private groups.

SPECIFIC PLAN FOR CHANGES IN SCOPE, ORGANIZATION AND MANAGEMENT OF PUBLIC CORPORATIONS

The Government's policy regarding government corporations has been enunciated by the past Presidents of the Philippine Republic and was restated by President Carlos P. Garcin in his Budget Message to Congress in 1959, which is quoted as follows :

"*Policy Concerning Government Private Corporations*"

"Many of the government private corporations are conducting business and industrial operations which are of vital importance to our productive effort. They produce goods and services beneficial

to our economic and social well-being. Several of their activities and projects are discussed in various portions of this message. However, it may be noted briefly that these corporations are contributing much to the national welfare—producing commodities like cement, steel, fertilizer and gas; providing transport facilities by land, sea and air; generating electric power; stabilizing the prices of essential consumer commodities; and providing social security services. They must be continued whether under government or private auspices.

"In addition to their contribution in the form of goods and services for our people, government private corporations also play an important role in fiscal operations. Their receipts and disbursements affect the total spending in the economy, with corresponding effects on income, employment and prices. An examination of their disposable resources will also help in fully appraising the total resources available to the Government in the prosecution of its economic programmes. For instance, twelve corporations reported a net profit totalling 21 million pesos in Fiscal Year 1958. At the end of the same year, the case balance of nineteen government private corporations was 70.6 million pesos. (See Annex R for a summary of the cash flow statement of government private corporations, and Appendix 6 of the Budget for their financial statements.)

"But the usefulness of these corporations should not make us deviate from our policy of limiting government participation in direct business undertakings. It is my hope that private enterprise will eventually take over the business and industrial type government private corporations. To this end, I should like to reaffirm the policy of the Administration that the Government will engage in business and industrial activities only in these fields which are vital to the economy but which temporarily at least are not attractive to private initiative either because profit returns are low, too slow to materialize, or because the amount of initial capital required is beyond the resources of private groups. At any time when private enterprise expresses a willingness to purchase or lease on reasonable terms any of our government private corporations, under conditions which will guarantee continued levels of service or productions, the Government will relinquish its holdings with alacrity.

"Encouraged by the successful transfer of the Bacnotan Cement Plant to private enterprise, the sale of the Manila and Ilocos Textile Mills of the National Development Company has been authorized. The shares of the NDC in the Philippine Electric Company and in the Manila Gas Corporation have also been offered for sale. The Maria Cristina fertilizer plant of the National Power Corporation is also being offered for sale. Aside from promoting private enterprise in our economy, the disposition of these public assets will provide the government with increased liquid resources for investment and pioneering in new ventures.

"Pending the sale or lease to private groups of other government private corporations, we must gain maximum production from these facilities and take steps to make more attractive their ultimate takeover by private investors. To this end, it will be my policy to strengthen and improve their management and to place them on a sounder financial basis.

"*Integrated Steel Industry and Power Development*"

"*Steel for Industrial Development*—To sustain the country's rate of industrial development, we must continue to support the growth of our steel industry. We are giving top priority to steel projects of the National Shipyards and Steel Corporation. These projects are essential to our economic development programme because they stimulate the growth of other industries. They will also enable us to save the dollars we pay for steel imports.

"The integrated steel plant at Iligan has a capacity of 300,000 metric tons and is estimated to cost about 246 million pesos. From Fiscal Year 1959 to Fiscal Year 1963, the total domestic peso requirements of this project amount to 94.9 million pesos. Of this sum, 64.0 million pesos will be spent for local purchases and 18.1 million pesos will be used to acquire dollars from the Central Bank for purchases of heavy machinery and equipment from Europe. The total foreign exchange requirements amounting to 90 million pesos will be derived partly from reparations and partly from the Export-Import Bank. From the Export-Import Bank, $73.4 million is proposed to be borrowed. Out of the 50 million pesos appropriated under Republic Act No. 1396, we have already released to the integrated steel project 18.7 million pesos from the proceeds of bond issues.

"The Iligan Steel Mill is already supplying commercial steel bars to local industries. During the calendar year 1958, it produced 17,190 metric tons of steel bars. This output was about 20 per cent higher than that obtained in 1957. It also produced 40 per cent more ingot than its output in 1957.

"Recently, the NASSCO acquired a 25-ton electric arc furnace for the Iligan Steel Plant. This capital investment will raise its annual steel bar production from 17,000 metric tons to 40,000 metric tons.

"Another project of the NASSCO is the J. Panganiban Smelting Plant in Camarine Norte. This plant is designed to provide a steady supply of pig iron to our local foundries. The project is expected to be finished in 1960 at an estimated cost of 5.5 million pesos. It will utilize locally mined iron ore and coal as raw materials. Arrangement has been made with European suppliers for a 40-M.R. Low Shaft Furnace to be installed at this point.

"*Power Development*—Power, like steel, is an important ingredient of agricultural and industrial development. The availability of cheap power is always an important consideration in the establishment of manufacturing industries.

"Since the liberation, we have made substantial progress in the development of our power resources. The number of electric plants in1941 was 217 with an installed capacity of 72,448 kW; in 1953, 328 with an installed capacity of 244,442 kW; and 1957, 323 with an installed capacity of 404,105 kW.

"During the last ten years the National Power Corporation has established eleven hydroelectric plants and two diesel electric plants with an overall installed capacity of 168,775 kilowatts. In 1958, the Corporation sold a total of 661.1 million kilowatt hours of electrical energy. In spite of these developments, however, the present capacity of all existing plants of the National Power Corporation is still short of the increasing power requirements of agriculture, industry and modern community living. We are, therefore, according high priority to our power development projects.

"Our Five-Year Fiscal Plan provides the sum of 152.1 million pesos from bonds funds for the development of hydroelectric projects of the NPC. Of this amount, 20 million pesos is programmed during the current fiscal year 23.9 million pesos in Fiscal Year 1960, 29.5 million pesos in Fiscal Year 1961, 51 million pesos in Fiscal Year 1962 and 27.7 million pesos in Fiscal Year 1963. These amounts will cover the peso costs of construction of the Binga, Talomo No. 3, Cauayan, Amlan, Maria Cristina Nos. 3 and 4, Angat and Buhi-Bari hydroelectric plants, as well as the Central Luzon electrification projects, and the dollar costs of all these projects, except Binga, Angat and Maria Cristina Nos. 3 and 4.

"We shall continue to tap foreign credit sources to acquire heavy machinery and equipment until our own foreign exchange resources can finance their purchase. For example, the Binga hydroelectric project is being supported partly from loans obtained from the International Bank for Reconstruction and Development. This project is designed to carry a

capacity load of 100,000 kilowatts, and can generate annually 336 million kilowatt hours of electric energy. The Binga hydroelectric project whose estimated cost is 110 million pesos, will be completed in 1960. Similarly, the Angat and Maria Cristina Nos. 3 and 4 can be financed by loans from the International Bank for Reconstruction and Development. Their foreign exchange costs amount to 70.7 million pesos.

"A very important project is the multi-purpose development of the Marikina River, which will be constructed soon. As planned, the Marikina River Multi-purpose Project will provide the inhabitants of the City of Manila and thirteen provinces with 141.3 million kilowatt hours of energy and will add 68,600 kilowatts to the present capacity of the National Power Corporation hydroelectric and diesel plants.

"This power phase of the Marikina River project will be financed partly by loans to be obtained from the Export Import Bank of Japan. Including peso costs, the estimated financial requirements of this power phase of the multi-purpose project total 37.2 million pesos, representing about 34.5 per cent of the entire overall cost of the project."

It may be opportune to recall the recommendation in the "Summary Report on Government Corporations" by the Government Survey and Reorganization Commission dated February 1956, quoted as follows:

> "The Commission has found that a number of corporations in the private category are now ripe for disposal, and the problem arises of how best to divest the Government of its interests in such corporations.
>
> "Although previous reorganization bodies have also recommended that the Government divest itself of its interests in many of the private corporations, little progress has been made. In actual practice it has been extremely difficult to interest private investors. As an example, the Government has made several attempts to dispose of the NDC Textile Mills at a price of approximately 12,000,000 pesos. The best price that has been offered so far and, from an alien businessman, was 5,000,000 pesos. In addition, many Filipino businessmen are not particularly interested in industries which appear to offer a low rate of return coupled with a high degree of risk.
>
> "There is also uncertainty as to how the sale or disposal could be accomplished and at the same time protect the interests of the Filipino people. Part of this difficulty probably stems from the belief among our people that government corporations are truly enterprises of the nation as opposed to enterprises of aliens or citizens who are not fully aware of their responsibilities as Filipinos. There is a belief that only those enterprises which are carried on by our own elected government will be run for the benefit of the nation. The belief has been expressed that those enterprises which are carried on by private individuals are liable to be carried on primarily for the benefit of the owners of such enterprises rather than for the interest of our people. Under these circumstances the Government, reflecting the belief of the people, has shown its willingness to put up with inefficiently-run governmental activities rather than allow such activities to fall into other hands.
>
> "The Commission believes, however, that the time has come to question the assumption that only government corporations can be expected to operate for the benefit of the Filipino people. We would rather assume that exploitation is not necessarily the hand-maiden of private enterprise. Rather, that the fullest benefits to Philippine enterprises can only be achieved through the entry of private capital into major industrial and commercial fields. The Commission believes that Filipinos should participate directly through stock purchase and ownership rather than indirectly through government ownership, and believes that all that has been lacking is a suitable device to make this possible.

"It must be acknowledged that few of the government corporations or assets can be disposed of at anything like what the Government has in them. The fact that corporations were pioneering in new fields, that inexperienced personnel were employed, that extensive plant and engineering changes were frequently necessary, that supplies and machinery were purchased when prices were unusually high has all resulted in inflated book values. The Commission believes, therefore, that the Government must be prepared to accept far less than the book value of many enterprises. To determine a fair price for corporate assets, the Commission recommends that private auditing and appraisal firms be permitted to make independent evaluations of the net worth of government corporations. Such appraisals can provide a basis for determining the price which the corporations or their assets will be sold.

"Where a corporation has been poorly run, it may be necessary to place the corporation or a phase of its operation under a management contract. Such contract has the advantage of securing experienced management personnel and relieving the government of management and operational problems. When the corporation has been operated on a sound basis for a period of time, it may appear as a more attractive investment for private investors. The Philippine Air Lines and Manila Gas Corporation have both been operated successfully under the arrangement and, in the case of Manila Gas, its financial success can best be measured by the 25 per cent annual profit it is now showing.

"Even when the plants and properties can be sold, however, there is always the danger of their falling into alien hands. There is little advantage from the national point of view of having the government build up large-scale industrial enterprises only to have them fall into alien hands.

"On the other hand, even when wealthy Filipino investors are willing to participate, there is a real question as to whether industry build on the taxpayer's money should fall into the hands of a few wealthy families.

"The Commission believes that the best solution to the dilemma is to diversify ownership by having the government, through private brokerage firms, sell shares to the public at large. Where possible the shares should be sold to the employees or to association of employees as they would normally be the individuals with the greatest interest in the business.

"When the government adopts the plan of selling shares to the public, it may be necessary to take back mortgages on corporate property to reduce the equity purchase. An alternative suggestion might be to encourage investors to form private corporations for the purchase of the assets of public corporations, and require that a certain per cent of shares be held by small investors.

"Where neither of these alternatives is possible, the Commission believes that the Government should investigate the possibilities of leasing corporate properties. This plant has been adopted in the case of the Manila Hotel Corporation. When a reliable lessee can be found, it provides an opportunity for Filipino businessmen to operate a going business at a relatively small initial cost.

"The Commission also recommends that the quasi-public corporations and those private government corporations which are retained by the government to be placed on a financially-sound basis, freed from government auditing restrictions, and provided with a completely modern plant and equipment, and be run in the most efficient manner possible. Under present conditions, government corporations are hamstrung by restrictive regulations, inadequate financing, and obsolete

plants. Under such conditions the plans are neither attractive investments nor making their full contribution to the economy. The Commission's individual reports point out many areas for improvement along these lines. Finally, there is the question of the future of government control and operation of private government corporations.

"Undoubtedly, in the present underdeveloped state of our country capital formation will not be rapid enough for private investors unaided to accomplish our immediate economic goals. The Commission believes that the Government will be requested to enter into additional industrial and commercial fields. With this prospect before the Government, the Commission recommends that in the future, government efforts to sponsor industrial and commercial development be expressed through the grant of loans and credits to private interests as is now being done by the Industrial Development Centre, rather than by directly participating in the form of government corporate enterprises.

"It has been adequately demonstrated in the individual Task Force report that government entry into private business fields is fraught with difficulties. Sir Henry Clay of the British Industrial Board comments anent this point :

> 'The issues of Industrial management are not the kind of decisions which are suitable for political discussions; they are matters of technique or occasions for market judgment, not decisions which turn on the application of high political or moral principles. They need to be safeguarded in a separate and specialized organization; if they are brought within the compass of governmental action it is difficult to segregate them and insure that they are settled by relevant considerations of political expediency even if camouflaged by plentiful use of the word "reasonable".' He then goes on to point out that :
>
> 'It is easier to get money for a big scheme of new construction than for inconspicuous day-to-day betterment and improvement which probably would produce much greater public benefit.'

"In the future, rather than form government corporations in the manufacturing field, the Commission recommends that if and when it becomes essential for the Government to enter into a manufacturing or commercial business it should contract with a competent and experienced industrial firm in the field in which it wishes to participate. For instance, it may be deemed essential at some future date to go into the automobile manufacturing business. Under such circumstances, the Government should first attempt to induce a private firm to assume the risks and engage in the enterprise. After exhausting all inducements, the Government might then contract with an experienced auto-manufacturing firm in the United States or elsewhere, to construct and operate a plant and to produce its product. The Government could provide such guarantees as are essential to insure the success of the business. In addition, such a contract could contain clauses providing for the use of Filipinos as employees and for the sale of a fixed per cent of the company's stock over the years to Filipino investors, so that at the end of a given period of time the corporation would be owned and manned by our people."

"Such a plan would enable the Government to sponsor industrial development without assuming managerial and business tasks for which it is ill-equipped."

APPENDIX I

MALACANANG PALACE
MANILA

BY THE

PRESIDENT OF THE PHILIPPINES

EXECUTIVE ORDER NO. 386

CREATING THE OFFICE OF ECONOMIC COORDINATION, ABOLISHING THE DEPARTMENT OF ECONOMIC COORDINATION, AND FOR OTHER PURPOSE

By virtue of the powers vested in me by Republic Act Numbered Four Hundred Twenty-two, I, ELPIDIO QUIRINO, President of the Philippines, do hereby order:

SECTION 1. There is hereby created an office to be known as the "Office of Economic Coordination." The present Secretary of Economic Coordination shall be the head of the office to be hereafter known as the Administrator of Economic Coordination whose compensation and rank shall be that of a head of an Executive Department. The Administrator shall be responsible to the President of the Philippines under whose control his functions as herein defined shall be exercised.

SECTION 2. There shall be in the Office of Economic Coordination a Deputy Administrator who shall be appointed, and shall receive such compensation as may be fixed, by the President of the Philippines. The Deputy Administrator shall perform such functions as the Administrator shall designate, and shall act as Administrator during the absence or disability of the Administrator, or in the event of vacancy in the office of the Administrator.

SECTION 3. The Administrator shall,

(*a*) direct, coordinate, and supervise the implementation of the economic rehabilitation and development programme, which may be undertaken by the Government with financial assistance in loans and grants from the United States, and adopt such policies and measures as may be necessary to provide for and obtain effective, efficient, economical and integrated execution of the said economic rehabilitation and development programme through corporations owned or controlled by the Government, or other instrumentalities now existing or which may hereafter be formed or organized for the development of the national economy, and through participation by private enterprise, with the view to extending to the greatest number among the masses their just share in the benefits of a more productive and stable economy;

(*b*) supervise, as a vigilant stockholder, corporations owned or controlled by the Government (except the Central Bank of the Philippines, the Rehabilitation Finance Corporation and the Philippine National Bank) for the purpose of insuring efficiency and economy in their operations and effective accomplishments of the objectives for which they were created, and to this end:

(1) vote the shares of stock owned by the Government and by its instrumentalities and exercise all the rights of a stockholder in stock corporations owned or controlled by the Government, and recommend to the President of the Philippines changes in, and the persons to be selected as, members of the boards of directors and managing heads of both stock and non-stock corporations and instrumentalities;

(2) pass upon new development programmes and projects, and upon programmes of activities and annual and supplemental budgets of income and expenditures approved by the respective boards of directors of the said corporations;

(3) cause periodic checks, analyses and appraisals of accomplishments, and financial operations and condition of the said corporations;

(*c*) carry out the policies and measures formulated, and projects recommended by the National Economic Council and duly approved by the President of the Philippines, affecting government-owned or controlled corporations;

(*d*) perform such other functions, as may be directed or delegated to the Administrator by the President of the Philippines, or as may be authorized by law.

SECTION 4. The provisions of Section 3(*b*) hereof notwithstanding, the Boards of Directors of the corporations owned or controlled by the government shall maintain their autonomy, subject only to such public policy as may be established or as directed by the President.

SECTION 5. The amounts necessary for the salaries of the personnel, sundry expenses, an equipment of the Office of Economic Coordination shall be assessed against, and contributed by, the corporations and projects under its jurisdiction, in such proportion as may be determined by the Administrator with the approval of the President.

SECTION 6. In the appointment and promotion of officers and employees of the Office of Economic Coordination, merit and efficiency shall serve as bases, and no political test or qualification shall be prescribed and considered for such appointments or promotions. Any officer or employee of the Office of Economic Coordination found guilty of violating this requirement shall be removed from office.

All officers and employees of the Office of Economic Coordination shall be subject to the Civil Service Law, rules and regulations, except those whose positions may, upon recommendation of the Administrator, be declared by the President of the Philippines policy-determining, primarily confidential or technical in nature.

SECTION 7. The Department of Economic Coordination is hereby abolished. The personnel, records, assets and obligations of the said Department are hereby transferred to the Office of Economic Coordination. Any reference to the Department of Economic Coordination or to the Secretary of Economic Coordination in any existing law, or in any Executive Order, Administrative Order, or Proclamation of the President of the Philippines shall, with respect to any duty or function assumed by the Office of Economic Coordination created in this Order, be deemed hereafter to be reference to the Office of Economic Coordination or to the Administrator, respectively.

SECTION 8. All acts or parts of Acts and all Executive Orders, Administrative Orders and Proclamations or parts thereof inconsistent with any of the provisions of this order are hereby repealed or modified accordingly.

SECTION 9. This Executive Order shall take effect upon its promulgation.

Done in the City of Manila, this 22nd day of December, in the year of Our Lord, nineteen hundred and fifty, and of the Independence of the Philippines, the fifth.

(*Sgd.*) ELPIDIO QUIRINO
President of the Philippines

By the President :

(*Sgd.*) TEODORO EVANGELISTA
Executive Secretary

APPENDIX II

MALACANANG PALACE
MANILA

BY THE

PRESIDENT OF THE PHILIPPINES

EXECUTIVE ORDER NO. 399

UNIFORM CHARTER FOR GOVERNMENT CORPORATIONS

Pursuant to the powers vested in me by Republic Act Numbered Four hundred and twenty-two, otherwise known as the Reorganization Act of 1950, I, Elpidio Quirino, President of the Philippines, do hereby promulgate this Uniform Government Corporate Charter.

DURATION, PURPOSES AND POWERS OF CORPORATIONS

SECTION 1. *Duration.* All government owned or controlled corporations shall exist for a period of twenty-five (25) years from the effectivity of this Executive Order.

SECTION 2. *Principal office.* All government owned or controlled corporations shall have their main offices in the City of Manila or in Quezon City, but may establish branches and agencies in other places, within and outside the Philippines, as may be necessary for the proper conduct of their business.

SECTION 3. *Purposes and specific powers.* The purposes and specific powers of existing corporations that are subject to this Charter are those enumerated in ANNEX 'A' hereof.

SECTION 4. *General powers.* All corporations shall have the following general powers :

(*a*) To do all such other things and to transact all such business directly or indirectly necessary, incidental or conducive to the attainment of the purposes of the Corporation; and

(*b*) Generally, to exercise all the powers of a corporation under the Corporation law in so far as they are not inconsistent with the provisions of this Order.

CAPITAL AND MEETING OF THE STOCKHOLDERS

SECTION 5. *Capitalization.* The authorized capital of government corporations are specified after their respective names in ANNEX 'A' hereof. The Government of the Republic of the Philippines shall not be liable for any debt, liability, obligation or damage that might be contracted, incurred or caused by the corporation.

SECTION 6. *Meeting of the stockholders.* Where all the shares of stock of the corporation are entirely owned by the Government, the corporation shall not hold a general meeting of stockholders. In lieu thereof, the General Manager of the corporation shall submit an annual report to the President of the Philippines, through the Administrator of Economic Coordination.

GOVERNING BODY

SECTION 7. *Composition and appointment.* The corporate powers of the corporation shall be vested in and exercised by a Board of Directors of not more than seven or less than five members as may be fixed by the President of the Philippines, consisting of a chairman and six or four members, appointed by the President of the Philippines with the consent of the Commission on Appointments. Directors need not be stockholders of the corporation. The said members shall serve as designated by the President in their appointments for terms of one, two, and three years, respectively, from the date they qualify and assume office; but their successors shall be appointed for terms of three years, except that any person chosen to fill a vacancy shall serve only for the unexpired term of the member whom he succeeds. For actual attendance at meetings, each director shall receive a per diem of twenty-five (25) pesos.

SECTION 8. *Powers and duties of the Board of Directors.* The Board of Directors shall have the following powers and duties :

(*a*) To prescribe, amend and repeal, with the approval of the Administrator of Economic Coordination, by-laws, rules and regulations governing the manner in which the general business of the corporation may be exercised, including provisions for the formation of such committee or committees as the Board of Directors may deem necessary to facilitate its business.

(*b*) To appoint and fix the compensation of the General Manager, subject to the approval of the President of the Philippines, and to appoint and fix the compensation of the other officers of the Corporation, with the approval of the Administrator of Economic Coordination. The Board by a majority vote of all the members, may, for cause, and with the approval of the President of the Philippines, suspend and/or remove the General Manager.

(*c*) To approve, subject to the final action of the Administrator of Economic Coordination, the annual and/or such supplemental budgets of the corporation which may be submitted to it by the General Manager from time to time.

SECTION 9. *Suspension and removal of Directors.* Any member of the Board of Directors may be suspended or removed by the President of the Philippines, solely or upon the recommendation of the Administrator of Economic Coordination.

SECTION 10. *Prohibition for Board members.* No chairman or member of the Board of Directors of a corporation shall at the same time serve in the corporation in any capacity whatsoever other than as chairman or member thereof, unless otherwise authorized by the President.

MANAGEMENT

SECTION 11. *Managing head.* The management of the corporation shall be vested in the General Manager.

SECTION 12. *Powers and duties of the General Manager.* The General Manager shall have the following powers and duties:

(*a*) To direct and manage the affairs and business of the Corporation, on behalf of the Board of Directors, and subject to its control and supervisions;

(*b*) To sit in all meetings of the Board of Directors, and participate in its deliberations, but without the right to vote;

(*c*) To submit within sixty (60) days after the close of each fiscal year an annual report, through the Board of Directors, to the Administrator of Economic Coordination;

(*d*) To appoint and fix the number and salaries, with the approval of the Board of Directors, of such subordinate personnel as may be necessary for the proper discharge of the duties and functions of the Corporation, and with the approval of the Board, to remove, suspend, or otherwise discipline, for cause, any subordinate employee of the Corporation; and

(*e*) To perform such other duties as may be assigned to him by the Board of Directors from time to time.

APPOINTMENTS AND PROMOTIONS

SECTION 13. *Basis.* In the appointment and promotion of officers and employees, merit and efficiency shall serve as basis, and no political test or qualification shall be prescribed and considered for such appointments or promotions. Any person appointed by the Board or by the General Manager, in violation of the above prohibition, shall be removed from office by the Administrator of Economic Coordination.

SECTION 14. *Application of Civil Service Law and Regulations.* All officers and employees of the corporation shall be subject to the Civil Service Law, rules and regulations, except those whose positions may, upon recommendation of the Board of Directors and the Administrator of Economic Coordination, be declared by the President of the Philippines as policy-determining, primarily confidential or technical in nature.

AUDIT

SECTION 15. *Personnel.* The Auditor General shall appoint a representative who shall be the Auditor of the corporation, and the necessary personnel to assist said representative in the performance of his duties. The number and salaries of the Auditor and said personnel shall be determined by the Auditor General, subject to appropriation by the Board of Directors. In case of disagreement, the matter should be submitted to the President of the Philippines whose decision shall be final. Said salaries and all other expenses of maintaining the Auditor's office shall be paid by the corporation.

SECTION 16. *Report.* The financial transactions of the corporation shall be audited in accordance with law, administrative regulations, and the principles and procedures applicable to commercial corporate transactions. A report of audit for each fiscal year shall be submitted, within sixty (60) days after the close of the fiscal year, by the representative of the Auditor General, through the latter, to the Board of Directors of the corporation, and copies thereof shall be furnished to the President of the Philippines, the Administrator of Economic Coordination and the Presiding Officers of the two Houses of Congress. The report shall set forth the scope of the audit and shall include a statement of assets and liabilities, capital and surplus or deficit; a statement and surplus or deficit analysis; a statement of income and expenses; a statement of sources and application of funds; and such comments and information as may be necessary, together with such recommendations with respect thereto as may be advisable, including a report of any impairment

of capital noted in the audit. The report shall also show specifically any programme, expenditures, or other financial transaction or undertaking observed in the course of audit, which, in the opinion of the Auditor, has been carried on or made without authority of law.

DISSOLUTION AND LIQUIDATION

SECTION 17. *Voluntary dissolution.* Whenever the Administrator of Economic Coordination believes that a government corporation has accomplished its purposes, or is no longer necessary to carry out the objectives for which it was created, or when its main purpose cannot be accomplished, resulting in financial losses, he may recommend to the President of the Philippines the dissolution thereof even if its terms as provided in this Uniform Charter has not yet expired, and the President of the Philippines may, by executive order, effect such dissolution.

SECTION 18. *Liquidation.* Every government owned or controlled corporation which is voluntarily dissolved as provided for in the next preceding paragraph, or whose term or existence has expired in accordance with the provisions of this Uniform Charter, shall nevertheless, be continued as a body corporate for three (3) years after the time of its dissolution for the purpose of prosecuring and defending suits by or against it and of enabling it gradually to settle and close its affairs, to dispose of and convey its properties, but not for the purpose of continuing the business for which it was established. In order to carry out this liquidation, upon the dissolution of a government corporation, a Board of Liquidators shall be appointed by the President to take charge of winding up the affairs of the corporation and effecting its liquidation, subject to the supervision and control of the Administrator of Economic Coordination.

GENERAL PROVISIONS

SECTION 19. *Applicability to former charters.* The charters of the Government Service Insurance System, Metropolitan Water District and the National Power Corporation shall remain in full force and effect insofar as they are compatible with the provisions of this Uniform Charter.

SECTION 20. *Applicability of the Corporation Law.* The provisions of the Corporation Law which are not inconsistent with the provisions of this Uniform Government Corporate Charter, shall be applicable to government owned or controlled corporations.

SECTION 21. *Applicability to new corporations.* All corporations hereafter organized by authority of the President for the economic development of the country, except those vested with governmental and regulatory powers, shall be chartered under the provisions of this Uniform Corporate Charter, unless otherwise provided by the President.

SECTION 22. *Repeal or modification.* All acts, executive orders, administrative orders, and proclamations or parts thereof inconsistent with any of the provisions of this Order are hereby repealed or modified accordingly.

SECTION 23. *Constitutionality.* If any provision of this Order shall be held invalid, the other provisions shall not thereby be affected.

SECTION 24. *Effectivity.* The provisions of this Executive Order shall take effect immediately upon promulgation hereof.

Done in the City of Manila, this 5th day of January in the year of Our Lord, nineteen hundred and fifty-one and of the Independence of the Philippines, the fifth.

ELPIDIO QUIRINO
President of the Philippines

By the President :
TEODORO EVANGELISTA
Executive Secretary

APPENDIX III

FOURTH CONGRESS
OF THE
REPUBLIC OF THE PHILIPPINES
SECOND SESSION

[REPUBLIC ACT NO. 2266]

AN ACT AMENDING CERTAIN SECTIONS OF THE REVISED ADMINISTRATIVE CODE

(Re Jurisdiction of Auditor General)

Be it enacted by the Senate and House of Represenatives of the Philippines in Congress assembled:

SECTION 1. Section five hundred eighty-four of the Revised Administrative Code is hereby amended to read as follows:

"SECTION 584. General jurisdiction of General Auditing Office. The authority and powers of the General Auditing Office extend to and comprehend all matters relating to accounting procedure, including the keeping of the accounts of the Government, the preservation of vouchers, the methods of accounting, the examination of the books, records and papers relating to such accounts and to the audit and settlement of the accounts of all persons respecting funds or property received or held by them in an accountable capacity, as well as to the examination, and audit of all debts and claims of any sort due from or coming to the Government of the Philippines in any of its branches. The said jurisdiction shall also extend to all corporations established and organized in accordance with the laws of the Philippines wherein the Government of the Philippines or any of its branches or any corporation owned or controlled by it owns the majority of stock as well as to all other self-governing board, commission or agency of the government. In the exercise of this jurisdiction, the Auditor General shall act as the ex-officio auditor of the said corporation, board, commission or agency and, as such, he is empowered and authorized to appoint a representative, known as the auditor, in the said corporation, board, commission or agency and fix the salary thereof in an amount equal to the salary authorized for the first assistant or next ranking managing head of the corporation, board, commission or agency concerned. The Auditor General shall also have the right to appoint, and fix the salaries and the number of, the personnel to assist said representative in his work. The expense for the maintenance and operation of his office shall be paid by the corporation, board, commission or agency concerned. Any provision of law or charter to the contrary notwithstanding, such salaries and number of auditing personnel, once fixed by the Auditor General, shall not be thereafter increased, diminished, or altered unless initiated by him. Said representative and his subordinate personnel shall also receive such allowances and privileges as are or shall be allowed or authorized to management personnel having the same rank and/or salary. The necessary appropriations to cover the expenses for the maintenance and operation of the office of said representative shall be provided by the governing board, commission or agency concerned as long as unencumbered capital or surplus funds are available."

SECTION 2. The second paragraph of section five hundred ninety of the same Code as amended to read as follows:

"In the case of deeds to property purchased by the Government or any government-owned or controlled corporation or other self-governing board, commission or agency of the government, the Auditor General shall require a certificate of title entered in favour of the government or other evidence satisfactory to him that the title is in the Government."

SECTION 3. Section six hundred twenty-four of the same Code is amended to read as follows :

"SECTION 624. Retention of money for satisfaction of indebtedness to Government. When any person is indebted to the Government of the Philippines or to any government-owned or controlled corporation or to any other self-governing board, commission or agency of the Government, the Auditor General may direct the proper officer to withhold the payment of any money due him or his estate, the same to be applied in satisfaction of such indebtedness."

SECTION 4. Section six hundred fifty-one of the same Code is amended to read as follows :

"SECTION 651. Power of Auditor to compromise claim. The provision of any law to the contrary notwithstanding, when, in the judgment of the Auditor General, the interest of the Government so requires, he may compromise or release, in whole or in part, any claim or settled liability to the Government or any government-owned or controlled corporation or other self-governing board, commission or agency of the Government not exceeding one thousand pesos and, with the written approval of the President of the Philippines, he may, likewise, compromise or release any similar claim or liability not exceeding ten thousand pesos.

"Application for relief from such claim or liability in excess of ten thousand pesos shall be submitted, through the Auditor General and the President of the Philippines, with their recommendation, to the Congress of the Philippines."

SECTION 5. All Acts, executive orders and regulations, or parts thereof, inconsistent with the provisions of this Act are repealed.

SECTION 6. This Act shall take effect upon its approval.

EULOGIO RODRIGUEZ
President of the Senate

This Act, which originated in the Senate, was finally passed by the same on May 21, 1959.

FIDEL M. HENARES
Secretary of the Senate

DANIEL Z. ROMUALDEZ
Speaker of the House of Representatives

Finally passed by the House of Representatives on May 21, 1959.

INOCENCIO B. PAREJA
Secretary of the House of Representatives

Approved :
CARLOS P. GARCIA
President of the Philippines

APPENDIX IV

FOURTH CONGRESS
OF THE
REPUBLIC OF THE PHILIPPINES

Second Session

Begun and held in the City of Manila on Monday, the twenty-sixth day of January, nineteen hundred and fifty-nine

(REPUBLIC ACT NO. 2966)

AN ACT PROVIDING THAT THE GENERAL MANAGER, PRESIDENT, GOVERNOR OR ADMINISTRATOR OF A GOVERNMENT-OWNED OR CONTROLLED CORPORATION SHALL BE EX-OFFICIO THE VICE-CHAIRMAN OF THE BOARD OF DIRECTORS,

BOARD OF GOVERNORS, OR BOARD OF ADMINISTRATORS THEREOF

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

SECTION 1. The general manager, president, governor, or administrator of a government-owned or controlled corporation shall be ex-officio the vice-chairman of the board of directors, board of governors, or board of administrators, unless its charter specifically provides that such general manager, president, governor, or administrator shall be the chairman of such board of directors, board of governors, or board of administrators, or unless the President of the Philippines shall have appointed such general manager, president, governor or administrator as chairman. As such vice-chairman of the board, such general manager, president, governor, or administrator shall sit, participate and vote in the meetings of the board.

SECTION 2. Any provision of Executive Order Numbered Three hundred ninety-nine, series of nineteen hundred fifty-one, and of any charter of any government-owned or controlled corporation inconsistent with the provisions of this Act is repealed.

SECTION 3. This Act shall take effect upon its approval.

Approved,

EULOGIO RODRIGUEZ
President of the Senate

Finally passed by the Senate on May 18, 1959.

FIDEL M. HENARES
Secretary of the Senate

DANIEL Z. ROMUAIDEZ
Speaker of the House of Representatives

This Act, which originated in the House of Representatives, was finally passed by the same on April 20, 1959.

INOCENCIO B. PAREJA
Secretary of the House of Representatives

Approved :

CARIOS P. GARCIA
President of the Philippines

SOURCES OF INFORMATION

1. Annual Report, OEC, FY—1954
2. ,, ,, ,, FY—1955
3. ,, ,, ,, FY—1956
4. ,, ,, ,, FY—1957
5. ,, ,, ,, FY—1958
6. Condensed Advanced Report, OEC, FY—1959
7. Report of the Committee on Reorganization of Government-Owned or Controlled Corporations, 1950.
8. "Government Corporations" Summary Report by the Government Survey and Reorganization Commission, February, 1956.
9. Executive Order No. 386, Series 1950 of the President of the Philippines.
10. Executive Order No. 399, Series 1951 of the President of the Philippines.
11. Act No. 2612.
12. Act No. 2849.
13. Commonwealth Act No. 182.
14. Commonwealth Act No. 311.
15. Government Corporate Counsel Opinion No. 89, Series of 1957.
16. Government Corporate Counsel Opinion No. 137, Series of 1957.
17. Republic Act No. 2266.
18. Republic Act No. 2966.

New India Press, New Delhi.



SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

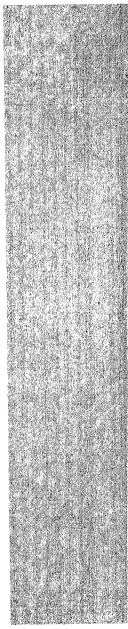
SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES[1] *IN THE PHILIPPINES*

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Paper No. 31

1. Prepared by Mr. B. P. Abrera, General Manager & Vice-Chairman, National Shipyards and Steel Corporation, Philippines.



MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES IN THE PHILIPPINES

The organization and establishment of public industrial enterprises for basic industries in the Philippines, which started in 1924, were based on the concept that in an under-developed country such as the Philippines, the State should take the initiative, leadership and/or active participation in these fields of industrial development, particularly in the utilization of the raw materials and other resources abundantly available in the country.

Local capital then was neither available nor prepared to take the risk in these enterprises because of the heavy capitalization required for their establishment even in medium-sized operations.

Accordingly, the Philippine government pioneered in the following industrial enterprises:

(1) In 1924 the Cebu Portland Cement Corporation (CEPOC) was created to "engage in the operation of cement factories and in the exploitation of such mineral deposits, as coal, necessary to the cement industry."

(2) In 1936 the National Development Company (NDC), a public corporation, was established to "engage in commercial, industrial, mining, agricultural and other enterprises which may be necessary or contributory to the economic development of the country and important in the public interest, and to finance industrial plants and factories for the manufacture or processing of Philippine products or for the operations of public services necessary or incidental for the promotion of domestic and foreign trade in the Philippines either directly, thru a subsidiary, or by extending financial help to private interests by the purchase of bonds or by guaranteeing bonds issued by private parties."

(3) In 1937 the National Power Corporation (NPC) was organized as a non-stock corporation to "investigate and develop the hydroelectric power resources of the Philippines, the availability of cheap power being vital to the acceleration of the economic and industrial growth of any country."

(4) In 1950 the National Shipyards and Steel Corporation (NASSCO) was created to "establish in the Philippines major facilities for ship repairs and shipbuilding and for the production of steel, and to acquire and/or construct and operate iron and steel mills, ferrous and non-ferrous foundries, furnaces, smelters and other mills and plants for light and heavy industries."

PRESENT SCOPE AND IMPORTANCE OF PUBLIC INDUSTRIES

The established public corporations in the Philippines have expanded their original facilities and activities so that presently these enterprises are engaged in cement production, coal mining, textile manufacture, cotton

growing, operation of ocean-going vessels, operation of hydroelectric projects, production of fertilizer, shipbuilding and ship repairs, steel production and fabrication as well as joint venture investments with private capital.

The total assets of these public corporations by the end of FY-1948 amounted to approximately 450,000,000 Pesos with a total net worth of approximately 75,000,000 Pesos. The total gross income during this period was 63,000,000 Pesos. For manufacturing and mining the national income amounted to 1,330,000,000 Pesos in which the share of public enterprises in income represents 4.7% of this total. Employment generated by these corporations reached approximately 9000.

During FY-1958, the major commodities produced by public corporations included the following :

Commodity	*Quantity*	*Percentage of Total National Production*	*Percentage of Total Domestic Consumption*
1. Cement	4,225,000 bags	29.8	26.7
2. Coal	50,370 M.T.	33.4	33.39
3. Cotton piece goods	11,456,000 Yds.	12.8	0.81
4. Yarn	810,000 Kgs.	20.5	7.23
5. Cotton seeds	296,500 Kgs.	100	96.0
6. Anhydrous Ammonia	8,673 M.T.	100	97.2
7. Ammonium Sulphate	32,803 M.T.	100	48.9
8. Sulfuric Acid	27,085 M.T.	91.1	90.2
9. Steel Bars	17,190 M.T.	29.0	21.8
10. Electrical Energy	575,754,000 KWH	34.6	34.6

These commodities were produced from the operation of twenty-four public plants and factories located all over the country and broken down as follows :

Cement Plant	1
Coal Mines	2
Textile Mills	2
Cotton growing plantation	1
Fertilizer Plant	1
Hydroelectric Plants	11
Diesel Electric Plants	2
Shipyard	1
Steel Mill (Merchant Bar)	1
Metal Fabricating and Repair Shops	2
Total	24

After World War II and particularly since 1954, the emphasis in the expansion of the public industrial enterprises were geared to the following:

(1) The expansion of the existing facilities with the end in view of utilizing and processing local raw materials (iron ore to pig iron to steel; raising of cotton for processing to cotton yarn, etc.) to finished products to reduce heavy imports of semi-finished and finished products (steel, cotton yarn, spare parts, etc.) which entail heavy foreign exchange expenditures.

(2) The expansion of the generating capacities of existing electric power projects to support various manufacturing industries as well as the construction of new hydroelectric projects in the different parts of the country to meet the growing demand for rural electrification in the remote areas in the country and in some

cases for flood and river control and irrigation as well as to support the industrial expansion in these various areas.

(3) Construction of ships to improve and replace surplus and obsolete vessels in the interisland trade.

Generally, government participation in the above segments of industrial development (power and steel production) have gained importance than the previous periods because of the generation of employment and the dispersion of these industrial activities to the different regions of the country. However, as discussed in the latter part of this paper, some of the public industrial enterprises have been relinquished to private groups to encourage private enterprise in the economic development of the country.

GENERAL LEGAL AND FINANCIAL SITUATION

Public corporations in the Philippines are governed under the "Uniform Charter for Government Corporations" as embodied under Executive Order No. 399, series of 1951, by the President of the Philippines. This charter provides the following:

(1) "The corporate powers of the corporation shall be vested in and exercised by a Board of Directors consisting of not more than 7 nor less than 5 members who shall be appointed by the President of the Philippines with the consent of the Commission on Appointments. Among its powers, are to prescribe, amend, and repeal, with the approval of the Administrator of Economic Coordination, the by-laws, rules and regulations governing the manner in which the general business shall be conducted; to appoint and fix the compensation of the General Manager and the other officers of the Corporation; and approve the annual budgets submitted by the General Manager, subject to approval by the Administrator of Economic Coordination."

(2) "The Management of the corporation shall be vested in the General Manager. His duties shall include the direct management of the affairs and business of the corporation subject to the control and supervision of the Board of Directors; his attendance as Vice-Chairman in all meetings of the Board and participation in its deliberations; to appoint and fix the number and salaries of subordinate personnel with the approval of the Board; to submit within 60 days after the close of each fiscal year, annual report to the Administrator of Economic Coordination through the Board of Directors and perform such other duties as may be assigned to him by the Board of Directors from time to time."

(3) "All government-owned or controlled corporations shall exist for a period of 25 years from the effectivity of this order (January, 1951)."

(4) "The Auditor General shall appoint a representative who shall be the Auditor of the corporation and the necessary personnel to assist the Auditor. The Auditor shall audit the financial transactions of the corporation in accordance with the law, administrative regulations and the principles and procedures applicable to commercial corporate transactions."

(5) "The Administrator of Economic Coordination, who has the rank of a Cabinet member, shall have control and supervision over all government corporations."

Ministerial participation in the governing Boards is practised as in the case of the Secretary of Public Works and Communications, who is Chairman of the Board of Directors in the National Power Corporation. There is no prohibition in the statutes or convention in this respect. Most of the Chairmen of the Boards are recruited, however, from the private sector.

Under this arrangement where the corporations are under the direct control and supervision of the Administrator of Economic Coordination with a Cabinet rank and/or where the Chairman of the Board of the enterprise is of Cabinet rank, closer and direct coordination is possible between Cabinet policies and the corporation level. This also offers quicker decision and action of corporation matters raised to the Cabinet than otherwise. The representation, however, of the private sector in the governing Boards of these public enterprises gives the private sector a field of representation in the policies of the corporation.

Joint public-private financing has also been a practice in some of the industrial enterprises. This type of financing is engaged into by the National Development Company (NDC) which acts as a holding company for the government investment in private enterprises. (Examples of this—Philippine Air Lines, Manila Gas Corporation, Philippine Electrical Manufacturing Co.) These investments amount to approximately 16,500,000 Pesos. In every case in the joint public-private financing, the management of the corporation is directed by the private groups with the government as a minority group in the Board of Directors.

POSITIONS OF CHIEF EXECUTIVES

The chief executive of a public corporation in the Philippines is the General Manager. Generally, he is a highly qualified man and has a broad overall experience of the enterprise activity. He must be of Filipino citizenship.

The authority and responsibilities of the General Manager are briefly enumerated in the "Uniform Charter" previously mentioned elsewhere in this paper.

The General Manager also acts as Vice-Chairman of the Board and as such exercises co-equal authority as any other member of the Board.

CURRENT MANAGEMENT PROBLEMS IN PUBLIC ENTERPRISES

(*a*) One of the most difficult problems in the existing public enterprises is the lack of working capital. While government funds were provided for the initial establishment of these enterprises, no funds were provided in most cases for their operational expenditures. Furthermore, the government investments in these enterprises carry interest and amortization which place a very heavy burden in their operation. This is so because they are non-stock corporations.

Because of this major handicap, steps are now being taken to revise their structure by legislation to make them stock corporations if not otherwise disposed earlier to private interests.

(*b*) Placing these corporations under government procedures of auditing and accounting handicaps their operation in view of the stringent government auditing rules for puchasing and disbursements. In many cases delays are incurred which otherwise could be avoided.

In order to remedy some of the inherent problems in purchasing under government auditing procedures, steps were taken to eliminate the pre-audit system and in its stead *post audit* was introduced. Emergency purchases have also been approved when such purchases are of urgent need and use. Amounts under this type of purchase are, however, limited.

(*c*) Employment problems have come up at times in public enterprises but these problems do not present serious handicaps to operations especially where such employment entails specialized and technical skills. Clerical positions are under the Civil Service.

(*d*) In the matter of intra-corporation departmental relationship between technical and/or production and commercial activities (purchases and sales), the standard practice is to gear purchases and sales with anticipated production output. A coordinated relation exists between production

and purchasing by constant check-ups of materials and supplies needed for the operation of the enterprise to avoid any possible bottleneck in the operations.

In most corporations, sales of products are made to end users and not through distributors. This keeps the "middleman" out of the picture. Presently, there are "moves" to apportion sales to end consumers and distributors, but its efficacy or advantages has as yet to be proven particularly in relation to the stabilization of prices which in the first case is completely controlled by the corporation, and in the latter the profit motive becomes a primordial consideration in the transaction.

In one of the corporations—the NPC—power sales are made through legitimate franchise holders in the different cities in the country under a contract. The NPC, however, has no control of the prices of power exacted by these franchise holders to their customers. The utility rates of the latter are controlled by the Public Service Commission. On the other hand, the NPC may sell directly to industries outside of cities at their prescribed lower rates without intervention of the Public Service Commission.

One of the major problems now faced by government corporations is the higher remuneration and incentive offered by private enterprises to top executives and to higher echelon in the technical and supervisory level. The corporations, therefore, are met with this serious competition from the private sector in keeping experts in the organization.

Assistance to management research, planning and training schemes for supervisory level and technicians are continually being developed in many of the corporations. In-job training is a standard practice. Other schemes include sending supervisory level and technical groups under corporation support to foreign and local industrial centers and schools under (1) the Technical Assistance program of the United Nations and the Colombo Plan, (2) the training program of the Industrial Development Center (IDC) with the cooperation of the International Cooperation Administration (ICA) of the United States of America, (3) the Philippine Government Program of the Management Service of the Budget Commission, and (4) the Harvard Advanced Management Program sponsored by private groups.

SPECIFIC PLAN FOR CHANGES IN SCOPE, ORGANIZATION, AND MANAGEMENT OF PUBLIC CORPORATIONS

Government ventures in industrial enterprises and/or participation therein are governed by this policy—"The Government should limit such participation only to cases where reasons of national interest require it or when such participation is desirable to stimulate private investment in a particular field" (State of the Nation Address of the late President Magsaysay to the Third Congress of the Philippines, January 28, 1957). This is a restatement of the policy of previous Administrations of the Republic of the Philippines and is consistently being followed and implemented. Accordingly in line with this policy :

(1) The government relinquished the Bacnotan Cement Plant (CEPOC plant in northern Luzon) to a private corporation (Bacnotan Cement Industries) for 17M Pesos in 1957;

(2) Shares of the National Development Company in the Manila Gas Corporation, Philippine Air Lines, Philippine Electrical Manufacturing Co., were offered for sale to the public;

(3) Sale of the NPC fertilizer plant was advertised for public bidding; and

(4) Private groups were invited for joint government-private venture or entirely private management operation n the proposed NASSCO Integrated Steel Plant.

The Philippine Government, however, is deeply concerned in monopolistic tendencies in the private sector with respect to basic industries such as power and steel. The shift of emphasis from a raw material supplier and

agricultural economy to an agro-industrial economy has brought about a new orientation in the manner by which the raw material resources should be preserved, exploited and utilized.

CRITERIA FOR MEASURING EFFICIENCY OF INDUSTRIAL ENTERPRISES

Public industrial corporations in the Philippines may be divided into two groups as follows:

1. Service corporations
2. Profit-making corporations

Service corporations include the NASSCO and the NPC whose main objectives are to provide facilities for ship repairs and ship construction and generation of cheap power. As service corporations, their efficiency are not measured by the profits made but by the services rendered to the national growth. The profit-making corporations' (joint ventures and investments in private corporations) efficiency, however, is evaluated by the amounts of profits made in their operations.

CONCLUSION

There is no doubt that the participation of the Philippine Government in industrial enterprises has contributed to the healthy growth of the national economy and has stimulated private enterprises which previously were hesitant in investing in extractive industries as well as in the manufacturing and/or productive industries. The Philippine goal is a balanced agro-industrial economy.

New India Press, New Delhi.

SEMINAR ON

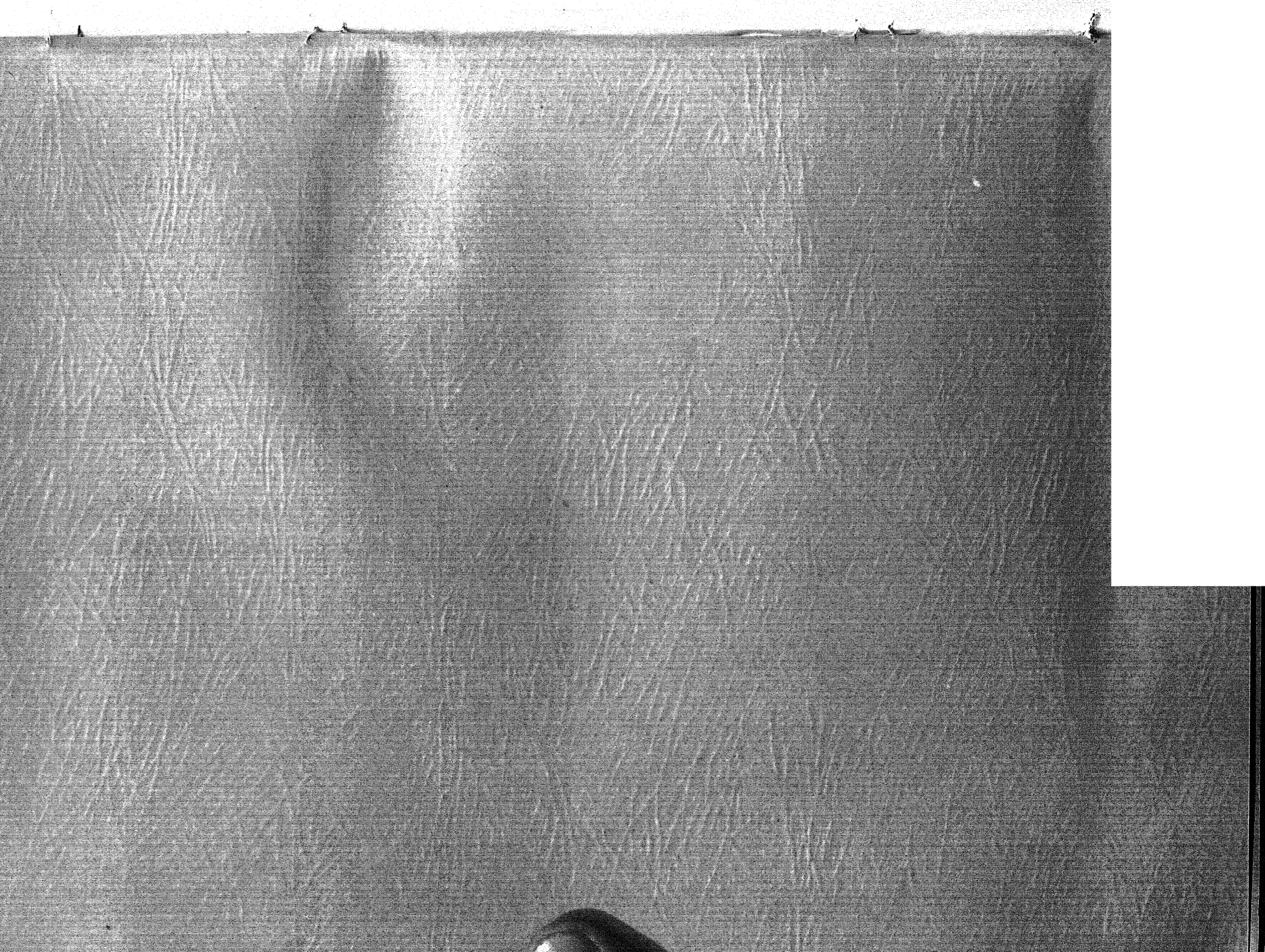
MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

STATE INDUSTRIAL ENTERPRISES IN INDIA

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Information Paper No. 32



STATE INDUSTRIAL ENTERPRISES IN INDIA

PAPER PRESENTED BY THE GOVERNMENT OF INDIA

This note submitted on behalf of the Government of India is to be read in conjunction with the Country Paper prepared by the Indian Institute of Public Administration, which deals with the present position of public industrial enterprises in the country in detail.

The policy and approach of the Government of India is conditioned by its declared objectives of rapid economic development, and of social justice directed towards the attainment of a prosperous socialist economy. In organising the national effort in terms of these objectives and policies, the outstanding features include planned development, and production programmes, and the ensuring of a field for the full contribution on the country's economic development by the private and the public sectors as complementary aspects of the common effort.

The Government's Industrial Policy Resolution, which carries the sanction of Parliament, is the principal document of reference at present. A copy of this Resolution forms an annexure to this paper.

In recent years the number of industrial enterprises established, owned and managed by the Central and State Governments has increased considerably. The reasons for this are several. While it is a fact that the increase in the size of the public sector is a recent phenomenon, it is historically true that even before the idea of a planned economy was mooted, India did posses a large number of public enterprises. Irrigation works, railways, ordnance factories, communication services, large-scale power and a number of other enterprises have been established and run by the State for several decades now. Therefore, when in 1947 the country became independent and had to enunciate an industrial policy of its own, it found itself already operating a large number of enterprises. Several of them belonged to the category of utilities and irrigation works.

A second reason why the State has to go into industrial activity in a big way is the fact that the country has embarked upon rapid economic development in a planned and methodical way. Any scheme of rapid economic development postulates rapid industrialisation also. It is in this context that the Industrial Policy Resolutions of 1948 and 1956 become important. They set out in some detail the respective and complementary roles of the private and public sectors in the industrial development of the country. (See the Country Paper). The objective is the attainment of rapid industrialisation in a manner consistent with the ideals that have been enunciated in the Constitution of India, especially in the Directive Principles of State Policy. One of the objectives is that the State should endeavour to reduce inequalities of income and wealth. Therefore, if India is to industralise herself quickly, it should not be done at the cost of accentuating such inequalities, a result which may follow if the industrial entrepreneurship and management were left entirely in the hands of the private sector. A third compelling reason is the absence of an existing

strong industrial base for the country. The building up of an industrial base needs enormous investment of capital which the private sector in India is not in a position to provide at the required pace and in sufficient quantity. If the private sector is to provide this without negating the spirit of the Constitution, then the investing class must be drawn from a sufficiently large section of the whole population. Investment of capital in industry depends in the ultimate analysis on the amount of saving people are able to make. In a country like India where the per capita income is still very low and where the overwhelming majority of the people still live at a bare subsistence level, the possibility of their saving and contributing to the national pool of wealth for investment is meagre. Thus private enterprise is not in any position to secure from the savings of the people at large the capital needed for investment. As for capital resources from abroad, in the case of the largest items of loan investment, even when it is obtained for well established enterprises, the Government of India has to step in and guarantee the repayment of the loans received from foreign parties. Hence if industrial development is to be achieved at a rapid pace Government as the largest single agency capable of investing large capital has to enter the industrial field.

Coupled with the above reasons must be considered the impact of the acceptance of the idea of a socialist pattern of society as the goal of the Indian society. The considerations which apply in deciding upon what industrial undertakings are to be established, how they should be run, where they should be established, how their products shall be priced and distributed, and so on, are somewhat different from those which prevail in the case of private enterprises. For instance, Government must consider not so much what the likely demand of a particular product is going to be, but rather what it should be and even build up the demand for it. In order that the country may achieve a certain pace and standards of development, the Government must create certain demands. These are considerations which apply largely in a planned socialist economy; they are beyond the purview of the private sector, however large that sector may be.

One important reason which has influenced Government thinking in the matter of owning and managing industrial enterprises is the consideration of profit. In India, the Government has not accepted the idea that State enterprises ought not to make profits. While in certain specific cases, in order to subserve a larger public interest, Government has operated enterprises on a non-profit or a low profit basis or subsidised the sale of products as in the case of fertilizers produced at Sindri, the general policy has been that State enterprises should make profits and thereby contribute towards the national pool of savings and of wealth which in the ultimate analysis is distributed among the entire people of the country.

These are the main considerations which have governed the thinking of the Government in relation to the public sector in India. A significant aspect of the industrial policy of the Government has been the absence of purely doctrinaire considerations. A reading of the two Industrial Policy Resolutions as well as of the Five Year Plans will amply bear out pragmatic approach of the Government in these matters. While for the reasons stated above the Government has decided upon an expanding public sector for the country it has at the same time been able to encourage private enterprise in all spheres. Co-operation and harmony between the two sectors have been well maintained.

This realistic attitude has been maintained also in the sphere of organisation and management of State enterprises. Government has generally followed the policy that in managing these enterprises the methods, modes and measurements of management followed in other countries, as well as in India itself should be carefully studied, adopting what has proved good, rejecting the bad, and always in keeping with the Indian situation. The following extract from a Government report presented to Parliament for

the year 1956-57 characterises the experience and the continuing approach of the Government of India :

> "During the five years many things have been tried out in the way of organisation, and experience has been gained in the planning, setting up and running of large-scale industries. This includes such matters as the initiation of and preliminary work on projects; various kinds of organisations (of which the company form has been most fruitful), the association of foreign experts and consultants, the building up of sound conventions and principles for efficient working and rendering of account and for the proper discharge of responsibility from the ground organisations right up to the Parliament. Special attention has been given towards making the project administrations and companies autonomous so as to give sufficient scope for initiative in achieving speedy and economically sound results in the different enterprises; to this end the policy has been followed of decentralising functions and authority to the maximum extent possible. There has also been constant endeavour to apply to the working of State-owned enterprises the full benefit of experience gained, both technical and managerial, in private enterprises. This has been done, amongst other things, by the association of non-official directors on the Boards of Government companies, the inclusion of technical experts on the committees set up in connection with the different projects, recruiting of trained personnel from private undertakings (subject to their being made available) and by informal consultations with people experienced in running industrial and commercial enterprises. Special efforts have been directed towards setting up reasonably high standards in matters concerning the workers, including the provision of adequate pay scales and conditions of service, housing, medical attention, educational facilities, and amenities. Labour leaders have been appointed directors on several of the Boards. In addition, the interests of the consumer and purchaser of the products of the different enterprises receive constant attention, so that their prices may be kept as low as possible in the public interest. The significance of these aspects can hardly be over-emphasised in the context of a dynamic and rapidly expanding economy."

Some of the current management problems in State enterprises include (*a*) problems of recruitment and training, (*b*) providing for raw materials, power and services, (*c*) the balancing of industrial development in terms of capital investment, products, regional considerations, the interlinking of industrial enterprises, and so on, (*d*) worker-management relationships, and (*e*) accounting and control and the measurement of management.

As the industrial sector is expanding at a rapid pace, the lack of skilled personnel at all levels has become a major problem for the management of State industrial enterprises. The increase in the number of such personnel has not been such as to equal the growth of industrialisation. Although engineering institutions and technical schools have been started since the beginning of the First Five Year Plan in fairly large numbers, there is still a great demand for technical personnel and this has resulted in severe competition. Training of these men to take up suitable jobs in the industries concerned still remains a difficult issue. The absence of training facilities in the existing industries and institutions has made this problem rather acute.

As a large number of enterprises have been started during the last seven or eight years there is a considerable scarcity of raw materials, including such important materials as steel, coal, cement, power and the like. This scarcity has often made planning of the construction of projects difficult. To some extent the acuteness of this has been alleviated by the fairly strict control exercised over the distribution of these important materials.

Worker-management relations, on the whole, are cordial, and the level of wages in public sector enterprises is comparable both within industry and as part of the larger national picture. However, a question that public enterprises have now to tackle is that of labour participation in industrial management. Such participation has been accepted as a goal to be attained and the Second Five Year Plan makes a modest beginning in this regard, in that it recommends the setting up of joint works committees in every plant. Recently it has also been decided to introduce other forms of closer labour-management participation in some selected enterprises run by the Government of India. This is a matter in which suitable methods have yet to be evolved.

To summarise, the Government of India has been following a flexible and somewhat pragmatic policy in planning, organising and furthering the industrial development of the country, in terms of the major objectives of rapid economic advance and social security and justice. This approach, combined with the need to take into account the contemporary circumstances which prevail, has conditioned the Government's thinking and decisions regarding specific problems as they arise, such as promotion of new industries, investment of foreign capital, nationalisation of particular enterprises, conserving of foreign exchange, and in general in fostering a climate of co-operation amongst all sectors of the economy. In regard to patterns of organisation and management of public enterprises, the Government has deliberately kept its policy flexible and in quite large areas of activity has proceeded by trial and experiment, always in keeping with the basic canons of good management, so as to ensure the greatest degree of productivity, especially in terms of social and human values.

ANNEXURE

GOVERNMENT OE INDIA

INDUSTRIAL POLICY RESOLUTION

New Delhi, the 30th April, 1956.

No. 91/CF/48.—The Government of India set out in their Resolution dated the 6th April, 1948, the policy which they proposed to pursue in the industrial field. The Resolution emphasised the importance to the economy of securing a continuous increase in production and its equitable distribution, and pointed out that the State must play a progressively active role in the development of industries. It laid down that besides arms and ammunition, atomic energy and railway transport, which would be the monopoly of the Central Government, the State would be exclusively responsible for the establishment of new undertakings in six basic industries—except where, in the national interest, the State itself found it necessary to secure the co-operation of private enterprise. The rest of the industrial field was left open to private enterprise though it was made clear that the State would also progressively participate in this field.

2. Eight years have passed since this declaration on industrial policy. These eight years have witnessed many important changes and developments in India. The Constitution of India has been enacted, guaranteeing certain Fundamental Rights and enunciating Directive Principles of State Policy. Planning has proceeded on an organised basis, and the first Five Year Plan has recently been completed. Parliament has accepted the socialist pattern of society as the objective of social and economic policy. These important developments necessitate a fresh statement of industrial policy, more particularly as the second Five Year Plan will soon be placed before the country. This policy must be governed by the principles laid down in the Constitution, the objective of socialism, and the experience gained during these years.

3. The Constitution of India, in its preamble, has declared that it aims at securing for all its citizens—

"JUSTICE, Social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the unity of the Nation."

In its Directive Principles of State Policy, it is stated that—

"The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which

justice, social, economic and political, shall inform all the institutions of the national life."

Further that—

"The State shall, in particular, direct its policy towards securing—

(*a*) that the citizens, men and women equally, have the right to an adequate means of levelihood;

(*b*) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;

(*c*) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment;

(*d*) that there is equal pay for equal work for both men and women;

(*e*) that the health and strength of workers, men and women, and the tender age of children are not abused and that citizens are not forced by economic necessity to enter avocations unsuited to their age or strength;

(*f*) that childhood and youth are protected against exploitation and against moral and material abandonment."

4. These basic and general principles were given a more precise direction when Parliament accepted in December, 1954, the socialist pattern of society as the objective of social and economic policy. Industrial policy, as other policies, must therefore be governed by these principles and directions.

5. In order to realise this objective, it is essential to accelerate the rate of economic growth and to speed up industrialisation and, in particular, to develop heavy industries and machine making industries, to expand the public sector, and to build up a large and growing co-operative sector. These provide the economic foundations for increasing opportunities for gainful employment and improving living standards and working conditions for the mass of the people. Equally, it is urgent, to reduce disparities in income and wealth which exist today, to prevent private monopolies and the concentration of economic power in different fields in the hands of small numbers of individuals. Accordingly, the State will progressively assume a predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities. It will also undertake State trading on an increasing scale. At the same time, as an agency for planned national development, in the context of the country's expanding economy, the private sector will have the opportunity to develop and expand. The principle of co-operation should be applied wherever possible and a steadily increasing proportion of the activities of the private sector developed along co-operative lines.

6. The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in present circumstances, could provide, have also to be in the public sector. The State has therefore to assume direct responsibility for the future development of industries over a wider area. Nevertheless, there are limiting factors which make it necessary at this stage for the State to define the field in which it will undertake sole responsibility for further development, and to make a selection of industries in the development of which it will play a dominant role. After considering all aspects of the problem, in consultation with the Planning Commission, the Government of India have decided to classify industries into three categories, having regard to the part which the State would play in each of them. These categories will inevitably overlap to some extent and too great a rigidity

might defeat the purpose in view. But the basic principles and objectives have always to be kept in view and the general directions hereafter referred to followed. It should also be remembered that it is always open to the State to undertake any type of industrial production.

7. In the first category will be industries the further development of which will be the exclusive responsibility of the State. The second category will consist of industries, which will be progressively State-owned and in which the State will therefore generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the State. The third category will include all the remaining industries, and their future development will, in general, be left to the initiative and enterprise of the private sector.

8. Industries in the first category have been listed in Schedule A of this Resolution. All new units in these industries, save where their establishment in the private sector has already been approved, will be set up only by the State. This does not preclude the expansion of the existing privately owned units, or the possibility of the State securing the co-operation of private enterprise in the establishment of new units when the national interests so require. Railways and air transport, arms and ammunition and atomic energy will, however, be developed as Central Government monopolies. Whenever co-operation with private enterprise is necessary, the State will ensure, either through majority participation in the capital or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertaking.

9. Industries in the second category will be those listed in Schedule B. With a view to accelerating their future development, the State will increasingly establish new undertakings in these industries. At the same time private enterprise will also have the opportunity to develop in this field, either on its own or with State participation.

10. All the remaining industries will fall in the third category, and it is expected that their development will be undertaken ordinarily through the initiative and enterprise of the private sector, though it will be open to the State to start any industry even in this category. It will be the policy of the State to facilitate and encourage the development of these industries in the private sector, in accordance with the programmes formulated in successive Five Year Plans, by ensuring the development of transport, power and other services, and by appropriate fiscal and other measures. The State will continue to foster institutions to provide financial aid to these industries, and special assistance will be given to enterprises organised on co-operative lines for industrial and agricultural purposes. In suitable cases, the State may also grant financial assistance to the private sector. Such assistance, especially when the amount involved is substantial, will preferably be in the form of participation in equity capital, though it may also be in part in the form of debenture capital.

11. Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the State and will be subject to control and regulation in terms of the Industries (Development and Regulation) Act and other relevant legislation. The Government of India, however, recognise that it would, in general, be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the national plan. When there exist in the same industry both privately and publicly owned units, it would continue to be the policy of the State to give fair and non-discriminatory treatment to both of them.

12. The division of industries into separate categories does not imply that they are being placed in water-tight compartments. Inevitably, there will not only be an area of overlapping but also a great deal of dovetailing between industries in the private and the public sectors. It will be open to the State to start any industry not included in Schedule A

and Schedule B when the needs of planning so require or there are other important reasons for it. In appropriate cases, privately owned units may be permitted to produce an item falling within Schedule A for meeting their own requirements or as by-products. There will be ordinarily no bar to small privately owned units undertaking production, such as the making of launches and other light-craft, generation of power for local needs and small scale mining. Further, heavy industries in the public sector may obtain some of their requirements of lighter components from the private sector, while the private sector in turn would rely for many of its needs on the public sector. The same principle would apply with even greater force to the relationship between large scale and small scale industries.

13. The Government of India would, in this context, stress the role of cottage and village and small scale industries in the development of the national economy. In relation to some of the problems that need urgent solutions, they offer some distinct advantages. They provide immediate large scale employment; they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country.

14. The State has been following a policy of supporting cottage and village and small scale industries by restricting the volume of production in the large scale sector, by differential taxation, or by direct subsidies. While such measures will continue to be taken, whenever necessary, the aim of the State policy will be to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large scale industry. The State will, therefore, concentrate on measures designed to improve the competitive strength of the small scale producer. For this it is essential that the technique of production should be constantly improved and modernised, the pace of transformation being regulated so as to avoid, as far as possible, technological unemployment. Lack of technical and financial assistance, of suitable working accommodation and inadequacy of facilities for repair and maintenance are among the serious handicaps of small scale producers. A start has been made with the establishment of industrial estates and rural community workshops to make good these deficiencies. The extension of rural electrification and the availability of power at prices which the workers can afford will also be of considerable help. Many of the activities relating to small scale production will be greatly helped by the organisation of industrial co-operatives. Such co-operatives should be encouraged in every way and the States should give constant attention to the development of cottage and village and small scale industry.

15. In order that industrialisation may benefit the economy of the country as a whole, it is important that disparities in levels of development between different regions should be progressively reduced. The lack of industries in different parts of the country is often determined by factors such as the availability of the necessary raw materials or other natural resources. A concentration of industries in certain areas has been due to the ready availability of power, water supply and transport facilities which have been developed there. It is one of the aims of national planning to ensure that these facilities are steadily made available to areas which are at present lagging behind industrially or where there is greater need for providing opportunities for employment, provided the location is otherwise suitable. Only by securing a balanced and co-ordinated development of the industrial and the agricultural economy in each region, can the entire country attain higher standards of living.

16. This programme of industrial development will make large demands on the country's resources of technical and managerial personnel. To meet these rapidly growing needs for the expansion of the public sector

and for the development of village and small scale industries, proper managerial and technical cadres in the public services are being established. Steps are also being taken to meet shortages at supervisory levels, to organise apprenticeship schemes of training on a large scale both in public and in private enterprises, and to extend training facilities in business management in universities and other institutions.

17. It is necessary that proper amenities and incentives should be provided for all those engaged in industry. The living and working conditions of workers should be improved and their standard of efficiency raised. The maintenance of industrial peace is one of the prime requisites of industrial progress. In a socialist democracy labour is a partner in the common task of development and should participate in it with enthusiasm. Some laws governing industrial relations have been enacted and a broad common approach has developed with the growing recognition of the obligations of both management and labour. There should be joint consultation and workers and technicians should, wherever possible, be associated progressively in management. Enterprises in the public sector have to set an example in this respect.

18. With the growing participation of the State in industry and trade, the manner in which these activities should be conducted and managed assumes considerable importance. Speedy decisions and a willingness to assume responsibility are essential if these enterprises are to succeed. For this, wherever possible, there should be decentralisation of authority and their management should be along business lines. It is to be expected that public enterprises will augment the revenues of the State and provide resources for further development in fresh fields. But such enterprises may sometimes incur losses. Public enterprises have to be judged by their total results and in their working they should have the largest possible measure of freedom.

19. The Industrial Policy Resolution of 1948 dealt with a number of other subjects which have since been covered by suitable legislation or by authoritative statements of policy. The division of responsibility between the Central Government and the State Governments in regard to industries has been set out in the Industries (Development and Regulation) Act. The Prime Minister, in his statement in Parliament on the 6th April 1949, has enunciated the policy of the State in regard to foreign capital. It is, therefore, not necessary to deal with these subjects in this resolution.

20. The Government of India trust that this restatement of their Industrial Policy will receive the support of all sections of the people and promote the rapid industrialisation of the country.

SCHEDULE A

1. Arms and ammunition and allied items of defence equipment.
2. Atomic energy.
3. Iron and steel.
4. Heavy castings and forgings of iron and steel.
5. Heavy plant and machinery required for iron and steel production, for mining, for machine tool manufacture and for such other basic industries as may be specified by the Central Government.
6. Heavy electrical plant including large hydraulic and steam turbines.
7. Coal and lignite.
8. Mineral oils.
9. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.

NOTES

10. Mining and processing of copper, lead, zinc, tin, molybdenum and wolfram.
11. Minerals specified in the Schedule to the Atomic Energy (Control of Production and Use) Order, 1953.
12. Aircraft.
13. Air transport.
14. Railway transport.
15. Shipbuilding.
16. Telephones and telephone cables, telegraph and wireless apparatus (excluding radio receiving sets).
17. Generation and distribution of electricity.

SCHEDULE B

1. All other minerals except "minor minerals" as defined in Section 3 of the Minerals Concession Rules, 1949.
2. Aluminium and other non-ferrous metals not included in Schedule 'A'.
3. Machine tools.
4. Ferro alloys and tool steels.
5. Basic and intermediate products required by chemical industries such as the manufacture of drugs, dyestuffs and plastics.
6. Antibiotics and other essential drugs.
7. Fertilizers.
8. Synthetic rubber.
9. Carbonisation of coal.
10. Chemical pulp.
11. Road transport.
12. Sea transport.

New India Press, New Delhi.

SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES IN THAILAND

BY

MR. CHAROON OONJITT

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Information Paper No. 33



MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES IN THAILAND

By
CHAROON OONJITT

For generations, Thailand's economy has depended upon agricultural production, which account for more than one-half of the national income. At present, only 9 per cent of the gross national product is derived from the manufacturing sector. This, however, does not mean that industrial progress is considered unimportant, as the Government of Thailand is pursuing a programme of economic development in which the expansion of industry plays a major part.

The industrial capacity of Thailand, like many countries that are in the early stages of development, is mainly located in the small and medium-scale field. These industries however provide a great variety of goods and services.

A social and economic survey carried out in 1954 indicated that 2 per cent of the economically-active population were engaged in industry. The survey also showed that about 2,500 enterprises employed more than ten persons, and twenty-eight thousand small enterprises employed under ten people each. From data and information available it is roughly estimated that there has been a growth of three to four times in manufacturing enterprises since 1950. Among these enterprises, the Government's share in the manufacturing sector is proportionally small in comparison with the aggregate number of private establishments. This is due to the government's decision not to compete with private investment but rather to assist by filling the gaps in the industrial chain and by participating in new and as yet untried industries that the private sector has not had the confidence to attempt.

Its policy can be summarized as follows:

(*a*) To create interest and encourage industrial investment.

(*b*) To promote industry, especially that avoided by the private entrepreneur.

(*c*) To stabilize prices and to reduce internal shortages.

(*d*) To create useful employment.

In accordance with the above policy, the following factories have been established by various government ministries:

Ministry of Industry— 2 paper factories
4 sugar factories
1 gunny-bag factory
1 alum factory
1 metal works factory

	1 pin and paper clip factory
	1 distillery
	1 ice plant
	2 bamboo products factories
	2 umbrella factories
	1 lacquerware plant
	1 ceramic plant
	1 sewing and weaving factory (reed carpets, belts, hats, handbags, shoes)
Ministry of Agriculture—	1 plywood factory
	1 ice plant
	1 door and window factory
	1 cement factory
	4 saw mills
Ministry of Defence—	1 battery factory
	1 textile factory
	1 tannery
	1 glass factory
	1 canned food factory
Ministry of Finance—	3 cigarette factories
(including National	2 sugar factories
Economic Development	1 gunny-bag factory
Corporation)	1 paper factory
	13 distilleries
Ministry of Health—	1 pharmaceutical factory.

These factories have been in operation for several years with varying degrees of success. Efforts are continually being made by various government agencies to raise the productivity of these factories.

ORGANIZATIONAL PATTERNS AND ADMINISTRATION

The organizational pattern of public industrial enterprises in Thailand may be classified into 3 categories, namely:

1. dependent organization,
2. semi-dependent organization, and
3. independent organization.

Category 1 : Dependent Organization

Organizations established under this category are those of an experimental nature and consist of the following types:

(*a*) pilot plants,

(*b*) training centres.

They are therefore not self-supporting and depend upon the particular ministry for their capital and operating expenses.

The administrative staff are under the control of the Director-General of the ministry and the Minister of Finance. Such plants operate within government departmental procedure and are not considered economic enterprises.

They exist only until the objective for their establishment has been accomplished, when they are liquidated, or until they become self-supporting, as are the factories in category 2.

Category 2 : Semi-Dependent Organizations

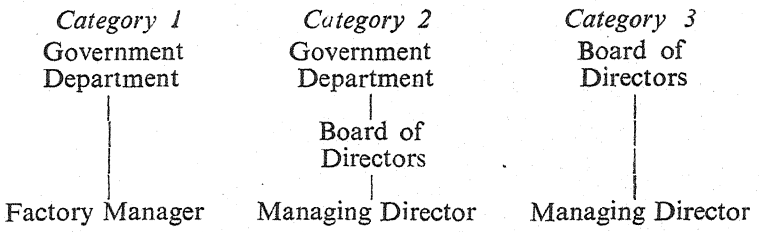
Semi-Dependent plants are those that are established as commercial enterprises, where the managing director has more freedom of control.

He is answerable to a board of directors, of which the Director-General of the ministry is a member. The organization is not under the control of the Ministry of Finance.

Category 3 : Independent Organization

There are public industrial enterprises which have the same status as a private limited company. The government is merely a shareholder and the managing director is responsible to a board of directors, appointed by the government.

Thus, the relationship between the governing body and the operating unit of public industrial enterprises are as follows:



In these organizations, a sound administration is required to accomplish objectives to the fullest degree possible. At least the functions of administration should be analysed, understood and applied ; and the relationships among people working in industrial enterprises must be carefully established to bring about team spirit and harmonious operation. In other words, the administration of industrial undertakings is concerned with the selection, development, and maintenance of a work force which can achieve the goals of the organization in an efficient manner. This is difficult to obtain in practice. There might be factors such as ignorance or an ineffective working system which affect the procedures of good administration. Sometimes it is necessary to introduce remedial actions for improving the situation. Experience shows that a systematic approach to administration can enable the enterprise to fulfil its objectives.

PROBLEMS OF STAFFING

Efficiency of industrial enterprises depends mainly on the people who do the work. And the most important person is the manager, who directs and guides the day-to-day operation of the enterprise. Especially in state enterprises the results should be achieved in a manner which will assure the manager of the confidence and trust of the general public. As public industrial enterprise is capitalized by national money, the manager is responsible to the government and the people. In this sense the responsibility of the manager in public industrial enterprise is apparently greater than that of the manager in private enterprise who is responsible only to a group of people, *i.e.* the shareholders. Therefore, it is important to find a right man for the managerial post. And that person must not only have background knowledge and experience in actual work but he must also be reliable and honest. To some extent, the qualities required of a manager will differ from job to job and from industry to industry, but there is a common factor which every manager should have, and that is managerial ability. However, the conditions of service and the qualifications of the individual are major factors for consideration in appointing the manager of a public industrial enterprise. With carefnl selection it is possible to allocate individual personnel to the work for which it is best suited. Only snag is that it is difficult to determine appropriate tests of managerial ability.

In Thailand, public industrial enterprise recruits its managers from the following sources :

(1) Employees from within an undertaking or industry who have academic qualifications and wide experience gained in service, or equivalent

qualifications with experience in executive positions and possessing managerial ability.

(2) Competent persons from outside the enterprise who are recognised as having managerial skill and who are well-equipped with knowledge and experience in industry.

When the manager has been appointed he will have authority and responsibility to manage the enterprise freely. Normally, the managing director is also a member of the board of directors; the enables him to direct the enterprise along the line required by the board or the government.

STEPS TAKEN FOR BETTER MANAGEMENT

In view of the fact that the efficiency of the organization largely depends on persons who are working in the undertaking as manager and supervisors, the Government of Thailand has provided facilities for training these people in various skills. Apart from education in universities and technical colleges, several government agencies are carrying out training courses. The Department of Industrial Works, Ministry of Industry, has conducted short training courses on management subjects such as Statistical Methods, Purchasing and Store-keeping, Personnel Management, Work Study, etc. The Department also carries out extensive training on supervisors' development under the Training within Industry system. The enterprises under the control of the Department and other public industrial enterprises can enjoy the benefit of these trainings. The In-service Training Division, Institute of Public Administration, conducts off-the-job training for Training Directors and other training of a specific nature such as in Mails and Record Management, and O&M. The Vocational Department, Ministry of Education, has converted 8 carpenter schools into industrial schools where workshops are being installed for skilled labour training in the following fields—building construction, welding (sheetmetal, diesel engine and locomotives, general electricity, and radio) telecommunication. Both youngsters and foremen can join these industrial schools. The management of public industrial enterprises can send their staff to be trained in these centres in order to gain more skill and obtain better understanding of working procedures, which, in the long run, will help in raising quality and efficiency.

Besides training facilities, Thailand has received assistance from several international organizations such as the United Nations, Colombo Plan, USOM, etc. Experts from these agencies have made investigations and advised on the improvement of working methods as well as the avoidance of red-tape practice. An inspection committee has been appointed by the Ministry of Industry to investigate the operation of enterprises under the control of the Ministry with a view to increased productivity. The committee is authorized to visit factories and interview the factory manager but has no authority to give orders. The committee reports and recommends directly to the Ministry; this report will be passed to the enterprise concerned for study and taking action. The assistance from the United Nations Organization under the Operational and Executive personnel programme is also under consideration by the Thai authorities. Such actions might help in improving the management of public industrial enterprises.

Attempts have been made to develop techniques for judging the efficiency of the enterprise in order to keep it at its highest level. In practice, several measures have been used to determine the enterprises' efficiency. They include (*a*) monthly reports in which output, expenditure, sales, and labour turnover are recorded and compared with previous months; (*b*) unit costing in producing particular products that can be periodically compared to find variations; and other measures such as profit, management ratio, actual output/ capacity ratio, are sometimes taken to indicate the efficiency of the enterprises.

Good management of public industrial enterprise is needed for optimum progress in achieving the goals of the nation. In seeking results the manager must run the enterprise properly and efficiently. He must operate within the framework of his assignment. He must adhere to various laws related to his organization. And he must conform to the policies and regulations of higher authority. This is quite a difficult task. The competent manager may take positive actions to achieve good management, such as: to have realistic planning and balanced organization; to maintain sound procedures and effective communication; to use standards and management data; to utilize resources and competent personnel; and to bring about high morale. If the enterprise can provide services that meet the satisfaction of the general public, then it can maintain its reputation. Public industrial enterprises in Thailand are directed towards that end. The degree of success is still to be seen.

New India Press, New Delhi.

SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

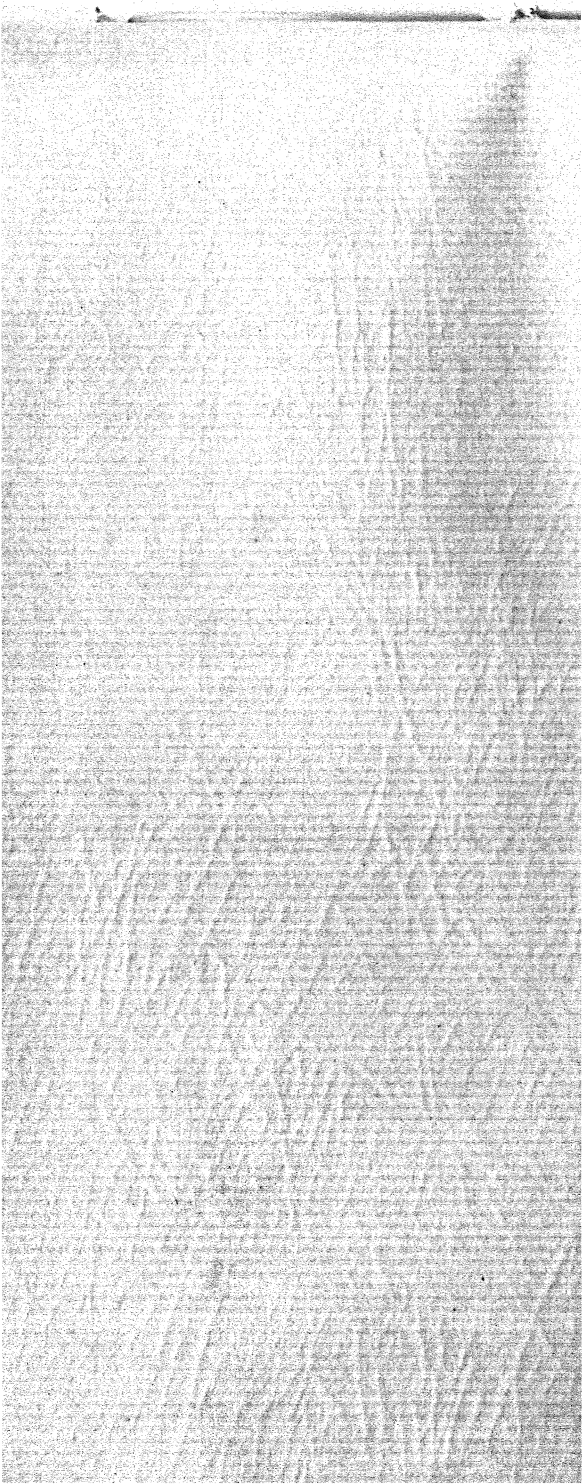
SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

GOALS FOR MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES IN TAIWAN

BY
J. C. HUANG

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Information Paper No. 34



GOALS FOR MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES IN TAIWAN

By

J. C. HUANG

Economic Development has always been the basic motivation behind investment of government public funds in industrial enterprises. In an under-developed country this tendency is even more pronounced, due to the low standard of living the people of such a country find themselves to be in. In the era of colonialism, countries of Asia and Far East were considered as the suppliers of raw materials and farm products. Consequently, very little industry existed except for scattered handicraft arts, which were the remnants of the agricultural economy of the last two thousand years or more. The industrial revolution of Western Europe and America in the nineteenth century accelerated industrial development of the West, while the East hibernated in contentment with its agricultural economy. Modern facilities of communication and transportation have made tremendous impact on the peoples of the East, demonstrating the possibilities of fuller physical comforts of life in contrast to traditional drudgeries, which had been fatefully taken for granted for many centuries. People have been awakened to the fact that spiritual life need not be devaluated by the better enjoyment of material well-being; sometimes even the reverse is true, for material betterment may enhance spiritual achievement. Confucius, the ancient Chinese sage, said more than two thousand years ago that one could achieve honour only after his hunger is satisfied. After World War II, the East has realized that true political freedom comes after economic freedom, and political strength goes along with economic strength. With enormous natural resources in their respective countries, they see unlimited possibilities of raising the standard of living of their peoples. Economic development means wealth to a nation and well-being to the people, consequently strength to the country. This basic motive of the governments constitutes the raison d' etre of public industrial enterprises in this region. In an under-developed country, private capital is scarce, and it would be a long time before accumulation of capital could reach a stage for large scale investment. Government must take the lead to venture into important industries with all its financial resources and executive power. Public industrial enterprises of this region may have various different specific objectives, but they must all be considered as offshoots of this fundamental truth.

The situation in Taiwan is no exception. For historical reasons, some of the larger industrial enterprises were taken over by the government when Taiwan was retrived from Japan after World War II. It was realized at the time that the heavily bomb-inflicted factories would never be rehabilitated if left entirely to private interests. It was also evident that economic recovery and social well-being relied heavily on these industries. Thus, the government took over all the unwanted factories, and in one stroke converted them

into a dozen public enterprises, which have since constituted the backbone of economic development in Taiwan. They consisted of sugar, power, fertilizer, aluminium, petroleum refining, alkali, machine manufacturing, shipbuilding, coal, metal mining, paper and cement. The first consideration of the government at the time was speedy recovery of normal economic life on Taiwan, and five years were regarded as a reasonable period, in view of the high degree of destruction the factories suffered during the war. Everything was to be expedited, and no effort spared to support the programme by the various agencies of the government. As a result, most of the factories resumed production within two years after transfer of management; and by the third and fourth year, with a few exceptions, they were in full production at capacities equal to those before their destruction. While credit should be given to the managers and engineers who worked at them, it is a proof of the success of the public enterprises as a system in contrast to private operation. The achievement of a crash programme or an emergency project can be pointed with pride by the advocates of public industrial enterprise using these as admirable examples. The objective is evidently for the production of commodities to supply a tremendous demand which could only be satisfied through a local source, if excessive expenditure of foreign exchange was to be avoided. The matter of cost or profit was a secondary consideration. Operations of these public industries have served as a foundation for the later development of private industries. Public industries constituted only 44% of the total value of industrial production of the country in 1958, as compared to 55% in 1952. This has fully justified the existence of public industrial enterprises in Taiwan, in spite of their many drawbacks.

Another distinct advantage of public industrial enterprise in an underdeveloped country is its objective of serving as a training ground for technical and managerial talent. Starting from a different cultural background, many countries of the East had respected scholars, and looked down upon trade and manual work as unbefitting to the higher class of intellectuals of the society. For instance, nowhere in the history of China is a record of the designers or builders of that monumental Great Wall to be found, yet poets or writers who sang about the greatness of the Wall were abundantly recorded in the annals of Chinese literature. Even today the Great Wall must be considered as an ingenious feat of engineering and management by modern standards. The downgrading of technical skill and management talent caused the more intellectually gifted people of the past to shy away from these careers until recent times, in China perhaps up to at least the time before the second World War. When government decided to venture into public industrial enterprises during the last twenty years, it was only natural that competent engineers and managers were nowhere to be found. Recruits from all walks of life were pursuaded to join in the work, and it is conceivable that they had little experience in industry as a whole. Errors were bound to be made, and from them were gained knowledge of practical engineering and management. Thus emerged a number of engineers and managers who became the nucleus for industrial development in China. We must admit, they had been cultivated at the expense of the public enterprises, and only governmental industries could bear such an expenditure, which might ruin a private operation. The advantage of this objective of the public enterprises was born out by later facts.

When Taiwan was returned to China after World War II, all Japanese nationals were repatriated at the earliest moment at their own volition. All the industries in Taiwan at that time were managed and staffed at the higher levels by Japanese. Their departure left vacant all the positions from president down to middle management in almost all industries, and disrupted the operation at once. As most of important industries were taken over by the government, it was its duty to seek the appropriate manpower. Fortunately the government had operated sufficient industrial enterprises during the War with a view of training personnel in various lines, so that it was able to draw on this source of supply. This group was able to prove its worthiness by assuming responsibility for these operations, and rehabilitated the

severely damaged factories within a period two to three years ahead of the targeted schedule. It would have been utterly impossible to achieve such a task without this pool of technical and managerial talent in the public industrial enterprises. Later as the industries in Taiwan developed, more and more persons were drawn from this source by private enterprises as well. It is not far from the truth, when we say that the rapid expansion of private industries in Taiwan in recent years can be largely attributed to the availability of technical and managerial personnel who gained their experience working in public enterprises.

It must be realized that managerial experience can only be attained in one's own country. Transplanted foreign talent needs time to adapt itself to the host country; and it is not likely to stay permanently, especially for the better grade of people who can always find better positions in their own country. The countries of the under-developed area must raise their own corp of industrial managers if they intend to embark on industrialization. The public industrial enterprise is the only place to give the managers their required experience. Managers are never born or educated, even if they went to Harvard Business Sdhool or other famous institutes of management in the world. Actual workingday experience is the only way to groom a manager into a better and more valuable person for an industrial operation. The same thing can be said of good engineers, although training in a more advanced country may help to a certain extent. We have the conviction that the burden of extensive economic development in its final stages must be borne by free private enterprises, and all of them must run by competent managers and engineers. Public enterprises must lead by providing the training ground for these personnel if a country is to shorten its development period. This is one of the missions of the public industrial enterprise. If one bemoans the inefficiency of the management of a public industry, we must tell him that this is what it ought to be. Good managers from the government enterprises ought to join and help develop private industries in order to expedite economic development, and leave the inexperienced in training with the public enterprise. There will come a day when this will not be necessary and private industries will be able to breed their own managers. By then public enterprise will have lost one of its main reasons for existence, and its importance anyhow. If young, promising and experienced managers of the public industries fail to move out, it may be a sign of stagnation in the development of the private sector.

In the long run, however, the fate of the public industrial enterprise depends on the national policy of the country concerned. If a country leans toward socialism, all industries of any importance at all will be in the hands of the government, no matter how inefficiently they are operated. On the other hand, if a country has faith in free enterprise as an economic system, the present public enterprises will sooner or later pass into private hands. This matter of national policy, however, is outside the scope of this discussion. But let me stress one point. Many of the defects and difficulties encountered in the management of public industrial enterprises are inherent in the system, and no amount of improvement in details could correct its basic disadvantages. Just because it is public money, it must be carefully audited by appropriate authorities, so that no embezzlement happens. Because the government is the owner of the property, a high authority in government as a public duty must approve operation policies and certain major details. Politics is bound to come in on anything connected with government. All these will tie the hands of the responsible manager who ought to have considerable freedom in operating a modern industrial enterprise efficiently. To require a manager of a public industry to produce results comparable to a similar private industry, is really asking for the impossible. No enlightened and responsible authority of the government should demand such a thing of a manager, for the policy of establishing such enterprises is on an entirely different ground and reason. Profit alone is certainly not the reason for a public industry, and should never be taken as the sole criterion for measuring

the success or failure of a public enterprise, as is usually done in the private sector.

As a country becomes more developed economically, free private enterprises will have established themselves firmly. It has proven in many countries of the West that a free economy is far more dynamic in creating wealth for a nation and raising the standard of living of its people. It has also been proven that private industry can be more efficiently managed. For the good of a country, it seems that the government need not go into public industry further than is absolutely necessary, and it should be at a minimum. When conditions are ready for private interest to operate it the public industrial enterprise should be transferred, and the price received therefrom may be used for other enterprises of a developing nature, if such are still to be established by the government. Thus the goal of any public industry, except for particular reasons, should be its ultimate transfer to private ownership.

This has been the policy in Taiwan where private industrialists have shown high proficiency. In 1954, four public industries in Taiwan passed into private hands, and they are being successfully operated, though they suffered some drawbacks in the initial stage. They included such profitable industries as cement, paper, jute bags, textile mills, pineapple, etc. It was also proclaimed by the government three years ago, that all industries under government ownership will be given up to private enterprise, except for power, which is a basic public utility; sugar, which has a very profound influence on the economy of the country; and oil refining, which has defence significance.

It is probably fitting to point out at this stage, that there will always be some resistance from vested interests, especially from those running and controlling these enterprises. However, this should not prevent the government from carrying out its policy for the general welfare of the people. But it is a factor to be reckoned with, and such interference could create quite a nuisance. The ability of a private interest to raise enough money to buy the larger public industries in a single lump sum may appear lacking, but arrangements could always be made with the government to transfer the ownership by stages. Postponement of transfer of the public industries to the private sector will no doubt retard the economic development of a country, and inability to do so signifies the faulty execution of the public industrial enterprise system in any free economy.

As a whole, it must be said that the main objective of the system is to achieve economic development of an undeveloped country and accelerate its completion. Government investment in industries serves to lead by example and illustrate with its more abundant resources. In its operating stage public enterprise will have also served as a training ground for technical and managerial personnel which are found to be most lacking for industrialization in both public and private sectors of the countries of this area. This indispensable resource of manpower can only be cultivated in the domestic environment. In the meantime, governmental endeavours will have created the correct atmosphere and built up sufficient basic facilities for the private investor. When private entrepreneurs have shown proficiency in risk-taking, and gained experience in management, it is time for the public industrial enterprises to be gradually transfered into private hands. It is only then that the public enterprise system will have fulfilled its mission as a prime mover for the dynamic economic development of a country, which will eventually bring wealth and prosperity to the people as whole.

New India Press, New Delhi.



ADMINISTRATIVE PROBLEMS OF STATE ENTERPRISES IN INDIA

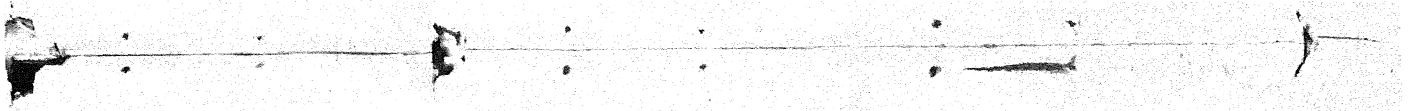
*

Report Of A Seminar
December, 1957

*

INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
NEW DELHI

Rs. 2.25



CONTENTS

FOREWORD v

INTRODUCTION vii

LIST OF PARTICIPANTS ix

WORKING PAPER xi

PART I—REPORT

1. PARLIAMENTARY CONTROL 1
2. AUDIT CONTROL 15
3. BOARD OF DIRECTORS 19
4. THE MANAGING DIRECTOR 33
5. THE FINANCIAL ADVISER 36
6. TERMS OF EMPLOYMENT IN STATE ENTERPRISES 39
7. WORKERS' PARTICIPATION IN MANAGEMENT 42

PART II—BACKGROUND PAPERS

8. PUBLIC CORPORATIONS 51
9. GOVERNMENT COMPANIES 76
10. CONTROL BOARDS 121
11. DEPARTMENTAL ENTERPRISES 126

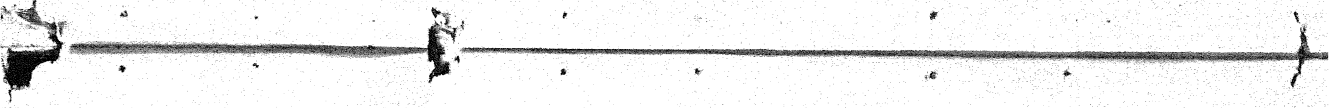
APPENDIX I: RECOMMENDATIONS OF THE ESTIMATES COMMITTEE 133

APPENDIX II: RECOMMENDATIONS OF THE PUBLIC ACCOUNTS COMMITTEE 155

APPENDIX III: AN ANALYSIS OF PARLIAMENTARY QUESTIONS 160

APPENDIX IV: LIST OF DIRECTORS OF PUBLIC CORPORATIONS 177

APPENDIX V: LIST OF DIRECTORS OF GOVERNMENT COMPANIES 180



FOREWORD

The Seminar on "Administrative Problems of State Enterprises", of which the proceedings are contained in this volume was the third in a series which the Institute has been convening. The first one was held in May, 1956, and the subject was "The Study and Teaching of Public Administration in Indian Universities." The second one, on "Recruitment and Training for Public Services" was convened in March, 1957.

On subjects of vital importance like these, and about which there is urgent need for careful consideration, the Institute has been bringing together persons of different kinds of experience and shades of opinion to discuss them in a detailed and comprehensive manner. In all these respects, I am glad to say that the present Seminar has been a success. The twenty seven persons who participated in it are men who in one way or other, have had opportunities of studying the problems of public enterprises in different aspects. The Seminar was also lucky to have as its Director, Shri S. S. Khera, I. C. S. who, as Secretary to the erstwhile Ministry of Production, and in his present post as Secretary to the Departments of Mines and Fuel, has had an intimate understanding of the operation of public undertakings in India. I am very grateful to him as well as to all participants in the Seminar for the valuable contribution they have made to the understanding of the subject. I am sure that the Report will be of interest to all members of the Institute as well as to a wider public.

V. K. N. MENON

INTRODUCTION

The present volume is the report of the Seminar on the Administrative Problems of State Enterprises in India, which was held on December 20-21, 1957, at the Indian Institute of Public Administration. It was attended by twenty-seven distinguished persons, drawn from such varied spheres of activity as Parliament, Governments, both Central and State, public and private enterprises, Universities and public life. Thus the group was a mixed one, and it was deliberately so made to bring out as many points of view as possible. Secondly, the number of participants was restricted because it was felt that as a Seminar, which is not so much a Conference as a study group, it was essential to keep it small and within manageable limits.

The background of the Seminar itself is simple. The Indian Institute of Public Administration, which is devoting its attention to important problems which, possibly, have not been adequately dealt with in other contexts felt that the time has come for a Seminar on this subject. However, as the Seminar was to be for only twelve working hours spread over two days, it was necessary to work within certain limitations. It was essential to keep the number of topics manageable so as to give each one of these adequate time for discussion within these two days. So, we in the Institute tried to select aspects of the subject which would bring out certain important problems which arise in practice rather than that there should be a broad or even academically full discussion of all the problems of State enterprises as such. The attempt, therefore, was to highlight those specific problems which require very special attention at present. They are relevant also to the present stage of development of these enterprises. The State as an enterprenueur has entered into active participation in industrial enterprises only very recently, although it has a pretty long history of organising enterprises which have a very important commercial aspect, for example, Posts and Telegraphs and Railways. Nevertheless, the actual choice of the topics was made only after receiving suggestions from the participants in that regard.

Accordingly, the Seminar discussed three subjects, *viz.*, External Control, Top Management and Problems of Internal Management. Within their broad scope several specific items were posed for discussion, and these were: (1) parliamentary control in relation to the autonomy of State enterprises; (2) audit control; (3) the composition and powers of the Board of Directors; (4) the position of the Managing Director, in relation to (a) the Government and, (b) the Board of Directors; (5) the role of the Financial Adviser; (6) workers' participation in management; (7) terms of employment in State enterprises; and (8) staffing at management and top technical levels. Owing to the non-availability of time the last item could not be discussed. However, discussion about the other seven items was free and full. Every member

participated and it was remarkable to watch the members agreeing or disagreeing on points irrespective of their backgrounds. I should also add that it was never intended that the Seminar should arrive at any conclusions, although it might be possible to draw some inferences regarding the trend of the discussions.

In preparing this volume care has been taken to preserve the original sequence of the discussions. It will be noticed that though the name of all the participants in the Seminar are given in the report, opinions expressed by them in the course of the discussion are not mentioned against their names. It was agreed at the beginning that this would be useful to enable all participants to engage in a full and frank discussion of all the items on the agenda of the Seminar.

The volume is divided into two Parts. Part I is the Report of the proceedings of the Seminar and Part II contains the background papers prepared by the Institute for use by the participants.

Before concluding, I must say that it was a great privilege for me to act as the Director of what has really been a most exhilarating and useful Seminar. The Institute must be congratulated on having convened a Seminar of this kind. I must also express my thanks to Shri P. T. Kuriakose and Shri S. B. Saharaya of the Institute who prepared the background papers. Shri Kuriakose also edited the proceedings for the purpose of this publication.

NEW DELHI
March 20, 1958

S. S. KHERA
DIRECTOR OF THE SEMINAR

Members of the Seminar on Administrative Problems of State Enterprises in India

1. Bansal, G. L., Secretary-General of the Federation of Indian Chambers of Commerce and Industry and member of the Board of Directors of the National Small Industries Corporation (Private) Ltd.
2. Bapat, S. B., I. C. S., Director, Organisation and Methods Division, Government of India and formerly Establishment Officer of the Government of India.
3. Chanda, A. K., Comptroller and Auditor-General of India and previously Secretary to the Government of India, Ministry of Production.
4. Chandy, K. T., Secretary and Director of Hindustan Lever Ltd. and for some time Director of Research, Administrative Staff College of India.
5. Charat Ram, President, Delhi Management Association and Director of Delhi Cloth & General Mills Ltd.
6. Choudhri, Dr. (Miss) Kamala, Assistant Director, and Head of the Human Relations Department of the Ahmedabad Textile Industrial Research Association.
7. daCosta, E.P.W., Editor, Eastern Economist and author of "Economic Progress of Russia—1860-1948" etc.
8. Gadgil, N.V., Vice-Chairman of the Board of Directors of the State Bank of India and from 1947 to 1952 Minister for Works, Mines and Power, Government of India.
9. George Thomas, I.A.S., Secretary to the Govt. of Kerala, Department of Industries, and member of the Board of Directors of Travancore Minerals Ltd., Forest Industries Ltd., etc.
10. Guha, S. K., I. A. S., Secretary to the Hindustan Steel (Private) Ltd.
11. Gorwala, A. D., I.C.S., (Retd). He submitted, at the request of the Government of India, a report "Efficient Conduct of State Enterprises."
12. Jha, L. K., I.C.S., Special Secretary to the Govt. of India Ministry of Commerce and Industry; Chairman of the Board of Directors of Heavy Electricals (Private) Ltd., member of the Board of Directors of Hindustan Machine Tools (P) Ltd., Life Insurance Corporation of India, etc.
13. Karve, D. G., member of the Board of Directors of Central Warehousing Corporation and Life Insurance Corporation of India and formerly Director, Programme Evaluation, Planning Commission and author of "Public Administration in a Democracy."
14. Khungar, S. D. I.S.E., Chief Engineer and General Manager of the Bhakra Dam Project and member of Bhakra Nangal Control Board.
15. Khera S. S., I.C.S., Secretary to the Govt. of India, Departments of Mines and Fuel; Chairman of the Board of Directors of National Coal Development Corporation (P) Ltd., and formerly Chairman of the Board of Directors of Sindri Fertilizers and Chemicals (P) Ltd., Neyveli Lignite Corporation (Private) Ltd., etc.

16. Lokanathan, Dr., P.S., Director-General, National Council of Applied Economic Research; Chairman of the National Productivity Council and formerly Executive Secretary to the ECAFE.
17. Mathur ,Prof., M.V., Professor and Head of the Department of Public Admintration and Economics, University of Rajputana.
18. Mazumdar, D. L., I.C.S., Secretary to the Govt. of India, Department of Company Law Administration.
19. Masani, M.R., Member of Parliament, Chairman, Personnel and Productivity Service and formerly Executive Assistant to the Chairman and Adviser on Industrial Relations, Tata Sons Ltd., and for some time Indian Ambassador to Brazil.
20. Mehta, Ashoka, Member of Parliament and formerly General Secretary of the Praja Socialist Party and a member of the Bombay Port Trust.
21. Mozoomdar, Ajit, I.A.S., Director of Industries, Government of Bihar.
22. Menon, V. K. N., Director, Indian Institute of Public Administration and formerly Professor of Politics, Patna University and Vice-Chancellor of the Universities of Patna and Travancore.
23. Paranjape, Dr., H. K., Professor of Economics, Sydenham College of Commerce and Economics and author of "Public Enterprises in India."
24. Pylee, Dr., M. V., Reader and Head of the Department of Economic Administration, Delhi School of Economics and author of "India's Constitution at Work."
25. Ratnam, S., Secretary to the Govt. of India, Ministry of Finance and member of the Board of Directors of Sindri Fertilizers & Chemicals (P) Ltd., Hindustan Machine Tools (P) Ltd., etc.
26. Singh, T. N., Member of Parliament and Chairman, Public Accounts Committee.
27. Singh, L. P., I.C.S., Director, Directorate of Manpower, Govt., of India and Member-Secretary, Central Pay Commission and previously Chief Secretary to the Government of Bihar.
28. Debunne, O., Assistant Resident Representative in India of the United Nations Technical Assistance Board attended the Seminar as observer.

Administrative Problems of State Enterprises in India

Working Paper

I

EXTERNAL CONTROL

A. Parliamentary Control in relation to the autonomy of State Enterprises

One of the primary considerations for granting autonomy to a State enterprise is to ensure freedom of action necessary for its activities. It is generally agreed that a public enterprise, if it is to be run on sound business principles and successfully must posses a sufficient degree of autonomy from Parliament and Government. Equally well recognised is the supremacy of the Legislature within the framework of the Constitution. Parliament has to have powers to exercise the ultimate control over a State enterprise. Whatever may be the form of organisation of a State enterprise, Parliament must rightly possess that control when it entrusts the taxpayer's money to a set of people who, however well-intentioned and efficient should be accountable for the success and good conduct of the enterprise. Here is an apparent conflict of interest for which there is no theoretical answer.

Parliamentary control may be exercised in several ways. Asking questions and getting answers for them in Parliament is one form. Even this apparently simple procedure is very limited in its scope. Questions on policy matters are alone generally replied to. The Speaker too has the power to disallow certain questions even when the notice of such questions is received. Parliamentary debates about a particular enterprise or a group of enterprises is another form of control. The Budget debates and debates on Bills and Resolutions moved by Government or members also provide occasions to Parliament to exercise its control. The Public Accounts Committee and the Estimates Committee, the two principal organs of Parliament to exercise specific control, often go into considerable details of the working of State enterprises. Parliament may appoint a special Committee to deal exclusively with public enterprises. *Ad hoc* committees may also be set up to examine the operation of a particular enterprise as need arises. Requiring the enterprise to submit the annual budget and the annual report for scrutiny is another method of control. Of late, there has been a suggestion that, besides the Annual Report, the enterprise should submit to Parliament reports from time to time, dealing with such matters as it is appropriate to report.

All these methods can be applied with varying degrees of effect. Their impact on the working of the enterprise varies with the effectiveness of the method adopted, and merits discussion. The important point is to determine as to what should be the degree and modes of control by Parliament over the operations of Government enterprises, with special consideration to the stage of development of parliamentary democracy and of public enterprise management in India.

To summarise, the points for consideration will include:—

(*i*) What should be the degree and modes of Parliamentary control and the degree of independence for the enterprise?

(*ii*) How should Parliament limit the exercise of its own powers of control?

(*iii*) What specific limitations should be placed on the powers and functions of Management?

B. Audit of Accounts of State Enterprises

At present the accounts of a statutory corporation are audited normally by an auditor appointed by the Central Government in consultation with the Comptroller and Auditor General although

variations do exist. For companies the procedure is laid down in the Companies Act itself that the auditor must be appointed by the Government in consultation with the Comptroller and Auditor-General. The main consideration here, is again the need to ensure that the taxpayer's money is well spent, that the enterprise does not use its freedom from Treasury control to the detriment of public interest. Which then is the best form of control? Is it better to have an outside auditor to audit the accounts of the enterprise, but whose audit is subject to review by the Comptroller and Auditor-General, or is it preferable to have the Comptroller and Auditor General himself to do the work as in the case of the Air Corporations, or is it more advantageous to have a highly specialised independent body to do the audit as is done in France? In that country a Commission by the name *Commission de Verification des Comptes* was set up in 1948. It is more of a judicial body and is composed of several sections, each section consisting of five persons, including one representative each from the Ministry of Economic Affairs and Ministry of Finance. It is the duty of the Commission to examine the accounts of public enterprises. It publishes a general report besides sending special reports to the Ministers concerned. Apart from examining the accuracy of the accounts of the enterprises, the Commission also makes observations about their managements and also suggests any changes it deems necessary.

The points for consideration will include the following:

(*i*) Should the accounts of a public enterprise be audited by a qualified outside auditor?

(*ii*) Should the Comptroller and Auditor-General be given the responsibility entirely to audit the accounts of State enterprises?

(*iii*) Should an independent agency, similar to the one in France, be set up for this purpose?

(*iv*) Should the auditing of the accounts of public enterprises be different from that of private enterprises?

II

TOP MANAGEMENT

A. The Composition of the Board of Directors

The composition of the Board of Directors is a matter of vital importance to the successful working of public enterprises. As at present constituted, the Boards of Directors of most of the enterprises consist mostly of officials of Government although ordinarily non-officials are also associated. Some of them have fulltime Chairmen. Often a Secretary to the Government happens to be the Chairman of the Board of an enterprise under his own Department and in some instances the Ministers have taken up the Chairmanship of the undertakings under their charge.

Several points arise in this regard. First, what should be the scope of the Board's functions? Should the Board deal only with matters of policy? Or should it be a Board of Management?

A second point is about representation of interests on the Boards of public enterprises as for example consumers, workers, other interested parties etc. The Estimates Committee of Parliament in its reports have supported the idea of associating individuals from the private sector with the Board and for this throwing open a certain percentage of the share capital to that sector.

A third point is about the kind of Chairman that a Board should have. The position of the Chairman is a crucial one. What then should be his qualifications? Should he be a generalist administrator or an 'idea man' or an 'integrator' of ideas? It is sometimes argued that if the Chairman is too much of an 'idea man', then the other members will be inclined to leave things to him. On the other hand, if he is only an 'integrator' of ideas the Board should also contain other 'idea men'.

To summarise:—

(*i*) What should be the nature and functions of the Board?

(*ii*) Should persons from outside the Government be brought into the Board, and under what conditions?

(*iii*) Should there be interest representation on Boards and what interests should be given representation ?

(*iv*) Should a Secretary to the Government or a Minister be the Chairman of an undertaking under their charge?

(*v*) What should be the qualifications of the Chairman?

(*vi*) What should be the position and powers of the Chairman ?

B. Powers of the Board of Directors

Since the Board of Directors is responsible for the successful working of a Government enterprise it is necessary that it is provided with the necessary powers. But the difficulty arises because in the exercise of its powers, sometimes, the Board may have to take into account considerations which the Board of Directors of a private enterprise will not have to reckon with.

The questions for consideration will, therefore, include the following:

(*i*) What should be the powers of the Board of Directors?

(*ii*) What should be the modes of accountability between the Board and the administrative Ministry of the Government?

C. The Position of the Managing Director in relation to (a) the Government and (b) the Board

Not less important than the composition of the Board is the selection of the Managing Director. This is so because on him will largely depend the fortunes of the enterprise. To that end he must possess the necessary qualities and be invested with appropriate authority. The Managing Director of a public enterprise is in a somewhat different position from that of a private enterprise.

Next to consider is the position of the Managing Director in relation to the Board of Directors. He is a member of the Board and at the same time an employee of the enterprise. He is usually appointed by the Government and is removable only by the Government. He is answerable through the Board and not directly, to the Government, since the Board is in charge of the enterprise.

The questions for consideration include: What should be the powers of the Managing Director (a) vis-a-vis the Board and (b) delegated by the Board?

D. Role of the Financial Adviser

The position of the Financial Adviser has been subject to a great deal of discussion, particularly his relationship with the Managing Director. The controversy has largely centred on the question whether the Financial Adviser should be given a right to go to authorities higher than the Managing Director in case of disagreement between the two. It is contended on the one hand that since the Financial Adviser is an expert, whenever his advice is found inacceptable to the Managing Director who is not an expert, the former should have a right to place the matter before the Board, and if need be the Government. On the other hand, it is pointed out that in so far as it is not the Financial Adviser on whom rests the responsibility to run the enterprise according to the wishes of the Board, the Managing Director who has that responsibility must possess the power to overrule the advice of the Financial Adviser.

As a compromise it has been suggested that the Financial Adviser should be on the Board. Another view is that although the Financial Adviser should not be given the right to go over the Managing Director, rules must be so framed as to make it very difficult for the Managing Director to turn down the advice of the Financial Adviser except when absolutely necessary.

The question to be considered is:— What should be the exact role of the Financial Adviser and his powers vis-a-vis the Managing Director?

III

PROBLEMS OF INTERNAL MANAGEMENT

A. Staffing at Management and Top Technical Levels

The primary problem of staffing is recruitment. It is necessary to have a proper procedure for selecting the higher administrative and technical personnel for State enterprises. There are three alternative procedures: (a) to leave the function of selection to the enterprise completely (b) selection for certain types of jobs carrying more than a prescribed salary being done with the approval of the President and (c) entrusting the work to an outside agency like the Public Service Commission. Another problem connected with recruitment is the determination of the level of authority which is to make the selection. In this connection it is sometimes asked whether the person immediately superior should have a say in the selection of his immediate subordinate.

The points for discussion include:—

(*i*) What are the appropriate agencies and levels of decision for selecting the staff of State enterprises?

(*ii*) What are the best methods for recruitment and staffing?

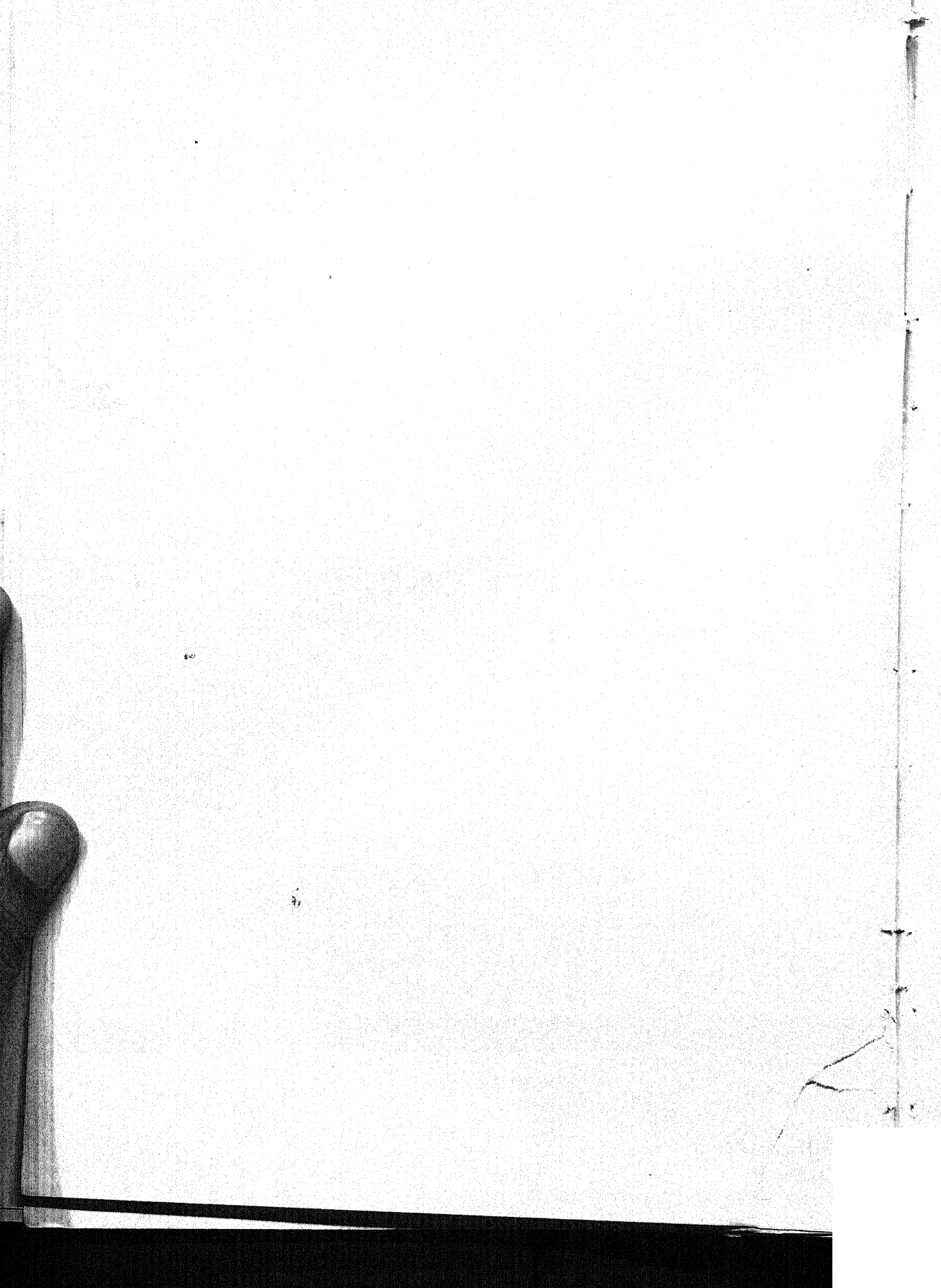
B. Term of Employment in State Enterprises

For the successful working of State enterprises it is necessary that qualified persons are employed in them. But the availability of qualified persons depends upon the terms the enterprises are prepared to offer. At present there is no uniformity in the terms offered by different enterprises. It has also been found that because of this disparity in the terms offered people often leave one enterprise to join another for better prospects. This works to the disadvantage of the enterprise which gave them the training.

Another point to be considered is the competition from the private sector where the terms offered are far more lucrative. To counteract this competition it has been suggested by some that Government should fix a ceiling on salaries paid in the private sector.

Allied to this is the question of interlinking the fortunes of the enterprise and of those operating it. In the private sector often there is this inter-connection. A manager who produces good profits—which after all is the yardstick for assessing the success and failure of the enterprise—gets something in return. Likewise the workers get bonus or other equipalent be fits. So there is a continuous persona' nvolvment between the fortunes of the enterprise and those running it. This is not the case in public sector.

PART ONE



CHAPTER I

Parliamentary Control in Relation to the Autonomy of State Enterprise

The Statement of the Problem

One of the primary considerations for granting autonomy to a State enterprise is to ensure freedom of action necessary for its activities. It is generally agreed that a public enterprise, if it is to be run on sound business principles and successfully must possess a sufficient degree of autonomy from Parliament and Government. Equally well recognised is the supremacy of the Legislature within the framework of the Constitution. Parliament has to have powers to exercise the ultimate control over a State enterprise. Whatever may be the form of organisation of a State enterprise, Parliament must rightly possess that control when it entrusts the taxpayer's money to a set of people who, however well-intentioned and efficient, should be accountable for the success and good conduct of the enterprise. Here is an apparent conflict of interest for which there is no theoretical answer.

Parliamentary control may be exercised in several ways. Asking questions and getting answers for them in Parliament is one form. Even this apparently simple procedure is very limited in its scope. Questions on policy matters are alone generally replied to. The Speaker too has the power to disallow certain questions even when the notice of such questions is received. Parliamentary debates about a particular enterprise or a group of enterprises is another form of control. The Budget debates and debates on Bills and Resolutions moved by Government or members also provide occasions to Parliament to exercise specific control. Parliament may appoint a special Committee to deal exclusively with public enterprises. *Ad Hoc* committees may also be set up to examine the operation of a particular enterprise as need arises. Requiring the enterprise to submit the annual budget and the annual report for scrutiny is another method of control. Of late, there has been a suggestion that, besides the annual report, the enterprise should submit to Parliament reports from time to time, dealing with such matters as it is appropriate to report.

All these methods can be applied with varying degrees of effect. Their impact on the working of the enterprise varies with the effectiveness of the method adopted, and merits discussion. The important point is to determine as to what should be the degree and modes of control by Parliament over the operations of Government enterprises, with special consideration to the stage of development of parliamentary democracy and of public enterprise management in India.

To summarise, the points for consideration will include:

(*i*) What should be the degree and modes of Parliamentary control and the degree of independence for the enterprise?

(*ii*) How should Parliament limit the exercise of its own powers of control?

(*iii*) What specific limitations should be placed on the powers and functions of management?

The discussion got on to a lively start when a member asked whether the degree and modes of Parliamentary control did not depend upon the form of the enterprise i.e. whether it was a Corporation or a joint-stock Company, etc. If the enterprise was departmentally run, Parliamentary control would be as complete as it would be over any other activity of the Government. If

on the other hand it was a Corporation, the statute itself would lay down, what powers were to be given to the Corporation. If it was a Company then arose the question whether it was a genuine Company in the sense whether it was really autonomous with an independent Board or whether it was a Company which was more or less a fictional one. "In such cases" the member said "I should think Parliamentary control would be or should be as complete as it can be, because Parliament has not delegated power to anybody. So it will be better to look at it from the point of view of the nature of powers which Parliament has delegated in particular cases."

Another member supported this view that the form of the enterprise was an important consideration in determining the extent of Parliamentary control. He said that when a Company or a Corporation was formed and that form was observed merely as a cloak and not in reality, then Parliament should not give up its right to control. "What we are really concerned with, I think, is that now that the State is setting up industrial enterprises, which are run for purposes of production of the same type as has been done in the past by private enterprise, and therefore, are in many senses different from an organisation like Posts and Telegraphs or the Railways, what form of organisation would be most appropriate, which would secure on the one hand that degree of freedom which an enterprise must have in its day to day working and that overall control which Parliament must retain if a state enterprise is not to be entirely without accountability. Now, I am asking the question is it possible and if so in what conditions for the Company to have a real entity so that it is not subject to departmental running, and yet to have essentially a link with the Government and ultimately Parliament. In other words what we have to ask ourselves is what would be the ideal form of structure and incorporation for a production unit which has to sell its production to the community (not to its own Department like the Chittaranjan Locomotives selling its locomotives to the Railway Board) which would conform with the basic requirements of Parliamentary control and yet have the adequate freedom"

Strong support to the above view came from another member who said: "it has a definite relationship to the form in which State enterprises are organised. As you all know State enterprises have been organised in three forms. Some of them like the Chittaranjan Locomotives and the Integral Coach Factory at Perambur are administered departmentally and their accountability to Parliament is full and complete. Then there are the Corporations which have been constituted by Statute and the relevant Statute itself defines the authority of the Corporation and also the control which Parliament exercises. In the case of companies on the other hand, control is necessarily very limited. Therefore in considering the question, we cannot ignore the form adopted. We have got to take into account the particular form that has been adopted in setting up these State enterprises. Personally speaking I see very little logic in classifying them into three categories. The Integral Coach Factory is as much a commercial enterprise as Sindri Fertilizers, but yet the former is administered departmentally. I do not think anybody will say that it is being managed any less efficiently than Sindri. Therefore, to discuss accountability we must consider the form in which a State enterprise has been organised.

"In the case of departmental units both the capital and the operating budgets are presented before the House. It affords the House an opportunity to discuss the efficiency of operation of these undertakings. In the case of a Corporation, no annual demand is placed before the House unless some money has to be granted as loan or some money has to be invested in the Corporation. In the case of Companies, there are three modes of control; first, when demands are placed before the House for investment as share capital; secondly through interpellations on the floor of the House;

and thirdly, through the balance-sheet and reports submitted by the Companies and the Corporations to the House. In the case of Companies and Corporations which are not audited by the Comptroller and Auditor General accountability is nebulous A professional auditor has to conduct his audit within the limitation of the provisions of the Company Act. He has merely to certifiy the Profit & Loss Account and the Balance Sheet. The reports presented by the various Companies as well as this type of certificate from the auditors give no information to Parliament and Parliament is naturally unable to exercise any effective control over the operations of these Companies".

This view was, however, forcefully challenged by some other participants who maintained that the form of the enterprise was not very important in deciding as to how Parliamentary control was to be exercised. As one discussant put it "To me that (form) is not a very important thing. Whether it is organised in a Company form or in a Corporation form is a matter of convenience. What is essential is that all Companies should have a public aspect. All public enterprises, I think, should be regarded by Parliament in the same manner, though there may be slight differences. The main point I wish to emphasise is that the public interests have to be protected in some form or other, and if Parliamentary control is essential, it is essential for public Corporation as also for other forms of management. To suppose that merely because business was organised in a departmental way, Parliament could exercise all control or because it was organised as a Corporation, it need not exercise control was a distinction which was not relevant from the point of view of the economic, social and public aspect. In short, the form was not so important as the substance. Whatever, the form of organisation, when a State enterprise conducted commercial activity, then it should come under the same modes and degrees of control."

The above opinion was further sustained by another who said that the form the enterprise assumed was not at all important. The issue really is to what extent Parliament should control; what is the basis of consideration for determining the degree, measure and direction of control and if agreement is contained in the statute or in the Articles of Association, as the case may be, as to what you want, then the question of form is relegated to the background. One could put whatever was needed into the statute or the Articles of Association, as the case may be. Nothing prevented that being done, and yet these Corporations and Companies might not have real autonomy, because that would depend upon other factors."

At this stage it was suggested that it would be better to discuss this question by considering whether the extent of Parliamentary control would necessarily follow from the nature of the undertaking. It was necessary to be clear about this point because Parliament by its various decisions in regard to such matters, from time to time, had showed that there was going to be a difference in regard to the extent of control that it wanted to exercise over such matters. "The very fact that in one case there is a Corporation and in another case things have been allowed to be run departmentally shows that there is a feeling in Parliament or so far Parliament's view has been that the extent of control by Parliament may vary according to the nature of the industry."

The member also pointed out that it was necessary to determine as to what should be the minimum control which Parliament should exercise over the officials administering the concerns.

Another member felt that apart from how Parliament exercised its powers in this regard at the moment, it was also necessary to consider the theory of it, i.e., why should Parliament exercise so much control over a particular type of concern, why it should not over another. "I think from the very nature of the functions which these organisations perform if you do not make a distinction and if Parliament is taking the same

attitude to all irrespective of the type of work which they do, I think theoretically we are actually coming to a contradiction because, why should we have these different forms at all? They become really superfluous. Why should you maintain this distiction at all? After all, there must be some reason why such a different form is chosen. If there is no reason, then it is only a matter of expediency. It does not really serve any purpose. So there must be some basis for this distinction and it is necessary to consider the theory of this distinction".

One point mentioned by a member was that before discussing the methods of control it was necessary to determine as to what the purpose of control was. He felt that there was a great deal of confusion about the purpose of Parliamentary control. To him the original purpose was that Parliament represented the shareholder of the company, i.e., the tax-payer. Therefore Parliament had to operate like the shareholders with overall control by virtue of ownership.

Another view expressed was that Parliamentary control was necessary because the operations of a State enterprise had a vital bearing on Government policy. As he put it: "A private company might have a pricing policy which might affect people in several ways. Let us say, the Imperial Chemical industries put special prices for dyestuffs. That affects the whole of textile industry. Now, that is the price we have to pay for having private enterprise. But if a State enterprise were to follow a policy of that kind, should not Parliament, which set up that Company, have the right to say something? So it is not true that the total commercial independence of a private Company can ever be exercised by a public Company."

Another member said that there was another reason also why Parliamentary control should be there. "First" he said, "the interest of Parliament in the conduct of this large variety of public enterprises is really an overall social interest. It is not merely the shareholder's interest. If it were so, the concerns could well have been left to private hands. Now, is it the consumer's interest as such? If it were so it would have been better to leave it to a co-operative organisation. The very policy of taking over a particular concern under public management indicates a complex of objectives: revenue may be one, public utility may be another and promoting development may be a third. Sometimes the objective may be to bring a particular section in a large measure. Taking all this complex of objectives into account, there is no doubt that Parliament may very well be justified in expecting that these purposes are carried out in the most economical manner. Therefore, the accountability to Parliament flows from this overall purpose and not merely from its financial interest".

Still another member agreed with this and said that there was no doubt that Parliamentary control had to be there somewhat in the same fashion as in the private sector Companies the shareholders exercising control. "The only question is that these controls should not be self-defeating as they now appeared to be very often. The controls were not there for their own sake. The objective was that these enterprises should be run efficiently and produce economically. Now, if that was the objective, then control would not be uniform in all enterprises. It was, therefore, necessary to analyse what sort of control would make for efficient and economical running, not on an idealogical basis of minimum control but on what was necessary for their running efficiently and economically."

This point about the purpose of Parliamentary control was elaborated further by another participant who considered the absence of any stake in the success of the enterprise for those running it as an important reason why Parliament should have real control over its operations. He said: "The Board of Directors of a Government-owned undertaking is radically different from the Board of Directors in a private sector Company in that the Directors themselves have no financial stake of their own. Now when the Director

himself is a major shareholder, then there is a great deal of confidence upon the part of the shareholders in leaving matters to his judgment and decisions, because his own fortunes are tied up with the Company in a major way. Now, a director of a Government Company, whether he is a civil servant or a man from the private sector or a man of eminence, does not have that particular kind of stake. Therefore, the question arises that if this Board makes a mistake it is not going to pay the price in the ordinary way in which a director does pay a price if he makes a mistake.

"Now tied with this is another question that the future of the Chief Executive viz., the Managing Director—his promotion, his salary, his bonuses —is not linked to the fortunes of the Company. Therefore, if the same freedom is given to the Board of a Government Company as in the private sector, even if that freedom of operation is a desirable thing, it still leaves the Board with the position that it can be irresponsible, i.e., it is not staking its own money in the decisions it takes. Ultimately the Minister in charge of the Department that is responsible for the company, through his answerability to Parliament, become the only point where control is exercised by the people who have provided money for the undertaking. But that body, viz., the whole of Parliament is clearly an unwieldly body for purposes of running a Company in its day-to-day administration. So we are still faced with a rather tricky, and if I may say so, a vital problem which has remained unsolved and hence so much of frustration. That you do want a Company to have a great deal of freedom to take decisions for day-to-day is certain but how do you ensure that these decisions which do not affect the people who take them in a vital personal way are going to be in the best interest of the Company. If they are in the interest of the Company, then I would take it that Parliamentary satisfaction will also be there, because when Government has created a Company for a purpose, the Company's purpose are one may presume, those cherished by Parliament, but this is a problem to which I have not been able to see a clear answer".

Agreeing with this point it was stated by another "that the members of the Board or the Managing Directors of the Government enterprise had no financial stake in the concern and their service careers were also not dependent on the degree of efficiency with which the concerns were administered and operated. This stressed the necessity for effective Parliamentary control."

However, this point of view did not go unchallenged. One member asked: "What is the significance of the personal stake of a Director in a Government enterprise? I would like to have it related to the public officials' stake in Government and the party in office. What is my stake in Government? I would say zero." The member drew the attention of his colleagues to the fact that in the U.S.A. a very large number of public officials were elected by the ordinary voters. The election was conducted on a party basis and therefore, their term of office was also for the duration a particular party remained in office. The stake these people had in their office was not financial nor even their career but the support of the party even if sometimes the favour of the party was related to the success of the person in the office he held. The speaker also testified that many non-officials who have served on the Boards of State enterprises have contributed largely to their success even though they had no stake in them. "I would, therefore, suggest for consideration that the director's stake in the enterprise is not as simple as it might appear to be in terms of the financial aspect of the enterprise."

He was supported by another who pointed out that in most enterprises of the world, businesses were managed by paid executives who did it in the same conscientious manner and with the same integrity and the fact that they did not risk their capital very much was not a decisive argument against their being entrusted with lots of powers.

Therefore, the member was of the opinion that is was a question of evolution of responsibility on the governing bodies or the Board of Directors and their constitution. "But it does seem to me that we should not overplay these ideas of a divorce of ownership and control because that divorce exists in private business as well".

At this stage the Director of the Seminar intervened and said that as it was agreed by all that Parliament should and was entitled to control it was more important to concentrate upon how that control could be most effectively exercised.

Thereafter the discussion was centred on the question of modes of control. In this connection one discussant who had recently been to Canada and studied the modes of control adopted in that country had the following to say. "Among the factors that influence the adoption of Company form, flexibility in management and operation is the most important. To what extent that has been realised here is altogether a different question. I find that the executive control is very rigid and obviously executive control cannot replace Parliamentary control. The present executive control is more irksome, more paralysing and more frustrating than Parliamentary control. We have created a facade of autonomous Companies, but in effect they are being run as departments of the Government. The only difference is that in the case of a departmental unit accountability is complete and in the case of a Company accountability is more limited. We have achieved nothing except place the executive, in a safer position and given it greater freedom and greater control. We have to consider to what extent the present pattern of administration is acceptable to the country. Once we accept that the purpose of setting up private Companies is to give independence and flexibility to the management then, we have got to consider as to how Parliamentary control can be adjusted to ensure that this flexibility is in fact realised. In India, unfortunately, the discussions and questions in Parliament do not often relate to policy matters. Questions are asked about day-to-day administration, and the Ministers also feel inclined to answer those questions even though they impinge on managerial responsibilities. By implication, therefore they accept responsibility for the day-to-day administration also, and members of Parliament naturally feel that they have every right of asking questions on very small issues. The point I am trying to make is this that if we adopt a Company form of management, we must give the Board of Directors such powers as are considered necessary and also sufficient authority to run the Companies efficiently and economically. They should be fully answerable for the manner in which they have administered the Company".

"The member then explained to the Seminar the methods which have been adopted in Canada. In that country, he said, "the Minister's role was to exercise the equity shareholders right. He has the right of appointing and dismissing the Directors. Secondly, he has the right to obtain periodical reports and evidence of satisfactory performance. Thirdly, to preserve a measure of proper control and accountability, he has the right of intervention and give advice and directions. Apart from these three functions of Minister, the companies are required to present their capital budget in broad details as approved by the Governor-General in Council, which are laid before the House. Provision also exists for prescribing forms in which the budget should be prepared, for establishment of Reserves and Banking Accounts, and for treatment of surplus moneys. The capital budget also indicates how the funds are to be found, whether from surplus earnings, depreciation and other resources or by borrowing from public or Government. There is also a provision that operating deficiencies which cannot be met out of the earnings will have to be covered from appropriations."

He added: "Whether we can adopt the Canadian pattern of keeping the House full in the picture; and therefore,

not attracting their intervention in small matters of detail is a matter to be carefully considered. Unfortunately, in India we are in the grips of a vicious circle. The manner in which these enterprises have been administered so far has not inspired confidence, and naturally it has attracted Parliament's intervention to an extent more than necessary in ordinary circumstances. The enterprises feel compromised by the executive directions and the executive is similarly compromised by the action of these enterprises. Either we must organise these State enterprises as departmental units, or we should organise them as Companies with full freedom to operate subject to accountability on the lines of their Canadian counterpart."

Support for the above view came from another member who read out the following extract from a report submitted to the Government of India some years back. "Parliament which represents both the shareholders and the consumer should obviously have an opportunity of discussing all aspects of the working and results of the authority when a budget grant is made. Whether this is original or supplementary for capital or revenue purposes, it should be regarded as an opportunity for Parliamentary discussion. The yearly report of the working of the authority should also be submitted formally to Parliament and it should be provided that a discussion may be raised upon it by any member so desiring. Similarly, there should be an occasion for discussion when the yearly accounts are submitted. The Articles of Association or Charter should always contain a provision giving the Auditor-General the power to audit the accounts of the authority. These accounts should, of course, be kept in proper commercial fashion. Questions also offer scope for the raising of matters concerning the authority, if they are not to prove unduly burdensome and cause interference with ordinary administration, they should be strictly limited to these matters on which the Minister has responsibility over the authority. Day to day management must be left outside their scope. A large degree of independence for the Boards in matters of current administration is vital for their efficiency as commercial undertakings. A Minister is responsible to Parliament for action he may take in relation to a Board of actions coming within his statutory powers which he has not taken. This is the principle which determines generally the matters on which a question may be put down for an answer by a Minister in the House of Commons. It would be contrary to this principle and to the clearly expressed intention of Parliament in the governing legislation if a Minister were to give in replies to Parliament or in letters information about day to day matters. Undue intervention by the Minister would tend to impair the Board's commercial freedom of action."

The member also made some strong comments about the way in which public enterprises were being run in this country at present. He said "I think the whole question of Parliamentary control and the way in which it should be exercised is more or less clear. There is no doubt as to what should be done. The point is that if you create fictional bodies and attempt thereby to cut Parliamentary Control, that does not work. You create a Board of Directors, three-fourth of whom consist of Government officials from various Ministries and of whom none has any independent right to decide when he goes back to the Ministry. If you then add two or three people to it and say "this is an autonomous body" and therefore, Parliament must behave as if it were an autonomous body, it is a fraud both on the Parliament and the public."

The discussion got warmed up when a member expressed the following opinion: "It appears to me that these various forms that they (public enterprises) take are also a form of control. I think the point which is not yet clear in our mind is as to whether, when each of these enterprises was established, sufficient thought was given as to why it should be a public Company or Corporation. During the past several years, when our public sector has been expanding, we

have started these enterprises without keeping in view that this is also a form of control. It appears to me that when the Minister is asked a question in Parliament, he has to reply to that question, whether the Companies are real Companies or the so called fictional Companies. To that extent there will hardly be any difference between a Company directly administered by the Department and a Company which is administered by this fictional Board of Directors. So if Parliamentary control has to be effective, there has to be a radical change in the mode of control itself.

"Our Parliament, as it is constituted at present, is based on certain ideals of democracy which were popular more in the 19th century. Today, when the functioning of democracy itself is developing on different lines, the way in which Parliament is constituted or the way in which Parliament exercises control also require some change. For example, we did not have so many public enterprises earlier. The people who come to Parliament are rightly the representatives of the people. But they are not, to my mind, as a whole body, in a position to discuss the reports and annual accounts of each and every concern whose reports will be put before Parliament because Parliament has only a limited time at its disposal and this is not the only function which it has got to perform. When the Parliament of India or the Government of India holds all the shares of these Companies, really the people of India hold these shares. Among these people are also included the people who are in the private sector, who have had sufficient experience in these fields. So it appears to me that in order to make this control effective, another body subordinate to Parliament —that body will have to report to Parliament—should be created in which there can be members of Parliament. There might be functional representation of persons who have had considerable experience in the fields of finance, accounts, sales and so forth. All reports, etc. of these concerns, whether autonomous or departmentally run, should be scrutinised by this body. It should be in a better position to deliberate for a sufficiently long period of time and give their report and recommendations to Parliament as such which in the final analysis must be the channel of authority over these enterprises. If this is done, it may remove many of the difficulties which are there, because there should be no opportunity in Parliament proper for raising questions of minute details. Parliament will also be in a position to have a report from a body which knows its business".

The member had thrown up a very important and challenging suggestion and it was taken up by other participants with great interest. Another participant who was a member of Parliament with considerable experience in private industry supported the previous speaker's suggestion for setting up another committee. The member went a step further and suggested the setting up of other forms of checks because he thought that even the type of committee suggested would serve only a limited purpose. "I myself feel that we must look outside Parliament for supplementary checking. Certain other checks and balances outside the intervention of Parliament might be necessary. A Consumer's Advisory Council for instance is a kind of supplementary control, external to Parliament which is worth considering. These are to be supplemented by a quasi-judicial tribunal of the nature of the Tarrif Commission or the Railway Rates Tribunal which can sit on the price structure, rates of wages, etc. of public enterprises. There is no good in Parliament debating whether the price of cement has been properly or improperly fixed. For this kind of an issue, if there was a quasi-judicial body permanently in existence which could consider whether the State Trading Corporation has fixed the prices of commodities correctly or incorrectly." And if necessary, such mechanisms should be set up for the private sector also. He also suggested that as regards Parliamentary control, it was necessary to have a self-denying ordinance by Parlia-

ment that it would limit its discussions to matters of policy. However, this could be done only if the Ministers themselves acted properly. The Ministers, he said, interfered in matters concerning these Corporations which did not pertain to policy matters. "Today, as far as I can understand it, first of all Ministers intervene when they should not in regard to appointments and other things and then naturally members of Parliament pursue the Ministers to go in where they should not. Therefore, a similar ordinance by the Cabinet limiting points of intervention to the minimum is also called for".

Formidable support for the view that a separate Parliamentary committee was needed came from another experienced Parliamentarian who said: "I feel that this question of accountability has been influenced and coloured by the British experience. Now in Britain strangely enough, it is the Conservative Party which has been pressing for accountability and the Labour Party which has been fighting shy of it. The Labour Party has been opposed to it for two reasons. Firstly, it felt during the earlier period of nationalisation that the Conservative party would exercise accountability for purposes of defeating nationalisation. The strong trade union movement was also opposed to increasing accountability to Parliament because it felt that the Trade Unions would probably get a better deal with the management if they were permitted to negotiate directly. I think in India the conditions are different. We have fortunately or otherwise no strong Conservative party in Parliament and I think every section of Parliament is interested in making the State enterprises a success. Therefore, I have felt for a long time that in this country we can have perhaps a better form of accountability than has been tried out in England. The main difficulty here is how to have, and build up the requisite expertise in Parliament. After all 80 percent of our members represent rural constituencies and are probably not in a position, even if they so desire, to exercise the necessary vigilance over these far flung and far-foliating industrial enterprises. I have, therefore, felt that it is very necessary that we should have a separate committee—a Parliamentary committee—on nationalised enterprises and that committee should have the expert opinion or expert advice at its elbow inside the Parliament Secretariat as in the American Congress, e.g., when the Economic Adviser to the President presents the report and that report is sent to the Congress, Congress itself has its own team of experts with the help of whom the report is scrutinised by the members of the Congress. Likewise Standing Committee would be there to look into the working of the State enterprises. I am not suggesting that it will interfere into their day to day working.

"Now, so many broad questions arise. While expert opinion may not be associated with the Committee as members, they could be invited and their advice solicited. Suppose a committee of about 25 persons is appointed. Then over a period of time you will have persons who will become well-informed about the working of these enterprises and who will be able to provide efficient leadership and who will be able to offer well-informed spokesmanship in Parliament. That is what is lacking today. May be there are half a dozen members in Parliament who may be able to ask questions because they have had this experience and who are able to contribute something. But the vast majority feel themselves lost and it is absolutely necessary to provide an opportunity to them to keep themselves fully acquainted so that they can exercise Parliamentary control in a well-informed and vigilant manner.

"As far as questions are concerned, members are not so much interested by and large into asking questions whether a particular concern is working well or badly. Our primary responsibility is to our constituencies and we have to worry whether our constituencies' needs are looked after or not. These questions are very different from the efficient working of a particular enterprise. I want to see that particular

advantage goes to my constituency. I want to see that boys from my constituency get employment in a particular concern and this kind of letter may be sent to the management. Well, they are all of a different nature, but basically if you want to examine the working of these institutions, you must build up in Parliament a new development for expertising. Parliament should be prepared to leave the overall supervision to the members of the Standing Committee and the members of this committee would be able to bring out such questions to the notice of the Parliament which deserve special and immediate consideration".

Another member who had a great deal to do about the administration of Companies in general whole-heartedly supported the suggestion for a special committee. He went on to say that the need of a special machinery for control arose because the system of scrutiny and control of expenditure which were obtained in the departments of the Government did not and should not apply to the activities of State enterprises.

Still another participant was in favour of setting up a committee or Parliament distinct from the Public Accounts Committee and the Estimates Committee. He said "I am afraid that the activity of the Public Accounts Committee is restricted and in any case I am fairly certain that the Estimates Committee will go into a number of areas where the Public Accounts Committee will not get the opportunity to go in. And it is my feeling that somehow the Estimates Committee has not been able to apply its mind fully to the various problems which many of these public enterprises often face. In fact, sometimes one gets the feeling that the Estimates Committee merely gives a big list of advices. I think some of them are even contradictory. I do not consider that the Public Accounts Committe is the best agency to go into many questions that these enterprises are facing today.

"Furthermore, in view of the tremendous increase in Governmental activity —and this particular type of activity needs special consideration—which is different from the traiditional pattern of working of the Government departments, I would say that it is only just natural and normal to have a separate committee, which will have a carefully selected type of persons from within the Parliament, where considerable thinking must be brought upon to bear. I would like to point out that out of the different modes of control which Parliament can exercise, I think the most important is the role of this committee. I have no doubt that by having an additional committee there will be no difficulty about the area of its activity. This can be clearly defined because public enterprises themselves form a separate pattern and a separate area. And I suppose there will be no difficulty in separating the area of activity of this committee from the activities of the Estimates Committee".

The member also quoted from a recent study about the subject by an authority in England. It was revealed by this study which covered a period of ten years that the House of Commons could give very little time to discuss the voluminous reports of a large number of public undertakings. The study also suggested that there was sufficient room for applying the principles of scientific management even in the preparation of these reports. On the basis of all this evidence the member was of the firm opinion that it was necessary for Parliament to constitute a Committee which could give its considered opinions to Parliament so that intelligent discussion could be conducted on the floor of the House.

With the following comment another member supported the suggestion. He said "That the powers of the Public Accounts Committee or of the Auditor General can be extended beyond the point where they are now, for instance, by having more important sub-committees of the Public Accounts Committee or increasing the general powers of the Auditor General is agreed; but neither of those developments will exclude the necessity of having a Standing Committee of the kind, which have been suggested

in this House so far, because both the kind of work done by the Public Accounts Committee and the kind of work done by the Auditor-General takes cognisance of the complete and continuous responsibility of Parliament over public enterprises and that is the reason why I am entirely in favour of having another Committee. In fact, to me it is a bigger problem of having more and more committees of Parliament to do its work. Parliament is now so busy that it cannot do its work satisfactorily unless not only this but more Standing Committees are set up to report to Parliament on matters on which all members cannot devote sufficient time. Only then, in my view, we can have a proper supervision and control by Parliament over Public enterprises".

Another member thought the setting up of a special committee as suggested would help better co-ordination and, therefore, was in favour of having the committee.

Further support to the suggestion came with the following comment. "Parliament in India, excuse me so saying, is not really equipped with persons having business and administrative experience, as say the British or even more so the American Legislature. (More than in any other country, therefore, in India there is immediate need to provide a Parliamentary Committee suitably composed which will go through the reports of the enterprises. All other reports such as of the Auditor General etc. should be available to this committee. Its report should be available to Parliament.) With growing experience on all sides, it is possible that the institutions which are now being instituted may be further modified. Above all there is need for Parliament also to recognise that as others in this country are gathering their experience by making mistakes, Parliament in the discharge of its overall responsibilities also must gather experience as to the most appropriate manner in which to assess the performance of units set under it. Because though Parliaments are omnipotent under law, neither in law nor in fact are they more omniscient than the rest of us —either individuals or Corporations".

Agreeing with the proposal for a special committee another member said that the very fact that an independent unit as distinct from a departmental unit was set up by Parliament was in itself a self-denying ordinance. (A big organisation like Parliament could never be an effective agency of control. Such control could be executed only through committees. For that Parliament must equip itself with the requisite expertise either by way of having an expert staff or by securing the services of experts on an *ad hoc* basis.) "In this connection, I may say, that the mere expansion of the functions of the Public Accounts Committee might not be enough because the Public Accounts Committee is at best able to do a negative job of things that have happened long ago. What we really mean is more of a guiding function, a function which Parliament might exercise in the shape of giving proper guidance, not merely a sort of inquest upon things which have already happened".

This argument was carried further by another member to include the Estimates Committee also. He said that the Estimates Committee could only make suggestions and that was its limitation. "A Parliamentary committee which cannot really issue a writ to run, may confuse the siginificance of any attempt of real control, and therefore, I will throw my weight very heavily for the proposal for special bodies whether Parliamentary or mixed Parliamentary, whether they are *ad hoc* or Standing Committees but with the specific responsibility and with ability to make their writ run".

Thereupon he was asked: "How can anybody see its writ run against Government? The Government has turned down the decision of the Parliamentary Committees time and again". This brought a quick rejoinder from the previous speaker. Said he: "Correct, but there I find the weakness of a Parliamentary Committee. If you cannot get your writ run, then you should not

expect it to function properly".

As against all those favouring the setting up of a special Parliamentary Committee were three participants who thought such a course of action unnecessary. Two of them even felt that it was a dangerous step to take. One member with Parliamentary experience said. "I feel that Parliamentary control has to be what the Constitution has said in all matters. Parliament's solid right and sovereignty in that matter cannot in any way be watered down or vitiated. Now, if it is intended that Parliament should function not only as a body of 500 or 700 members, but also shall exercise certain powers through its various committees which may also be simultaneously exercised by other advisory committees, that I think, will raise conflicts which are not desirable. Secondly how can anybody say that Parliament will try to share the power of scrutiny of annual reports or expressing its opinion with some body outside Parliament. That is a dangerous principle to be introduced if we want to maintain the sovereignty of Parliament. Parliament has shown great wisdom in itself trying to exercise certain powers. But if you want a body which will have its own audit system, which will control day to day administration, pass resolutions etc., then why not Parliament and Parliament's Committees themselves ?" Parliament should retain certain minimum control. One such would be control through audit. He complained that in some cases even the jurisdiction of the Auditor General had been taken away. This meant that the right of the Public Accounts Committee was also taken away. That was a wrong approach. Discussion of the annual reports would be another form of control. The member said that it was his experience that often the reports were submitted most irregularly. Again their budgets as presented did not contain much information and in fact some enterprises did not even consider it necessary to present their budgets to Parliament. Even in the U.S.A., the member observed, the Bureau of the Budget received the budgets of all Government enterprises. He thought discussions even if only short, could be of immense value. It might be that some member exceeded fair limits; but in course of time as experience was gained right conventions could be established.

The member went on to say: "There seems to be a confusion about it (Parliamentary Committee) for the simple reason that the Public Accounts Committee performs certain functions in which it specialises. They are to be performed by no other committee, whether Estimates Committee or any other Standing Committees that may be constituted. We had in the past Standing Committees. We had no Estimates Committee. The Estimates Committee came into being and then the Standing Committees were abolished. Each Standing Committee was meant for a particular Ministry and it used to apply its mind to all current expenditure. The Estimates Committee now tries to do that same thing. On the other hand, the Public Accounts Committee deals with the performance of a particular organisation on the basis of the audit report and it has the advantage of expert opinion to guide its deliberations. No committee of the House will have that expert guidance. Let us be very clear in our mind whether in the consideration of the reports of the activities of these State undertakings we shall have the expert guidance or not. If we must have, then there is no escape from the scrutiny of the Public Accounts Committee and it would be undesirable to have two sets of Public Accounts Committees, one dealing with this or that. Therefore, I feel that if we have got a body like the Public Accounts Committee which has at its hands the expert advice of the Auditor General,that should continue to function. Secondly if the Public Accounts Committee can handle 95% of the Budget, is it suggested that 5% of the remaining budget of these undertakings will not be handled by that committee ? So, I suggest that any dual creation or multiplication of such committees will confuse those who are in the administration because after all the Auditor General's

supervision calls the officials to enquire what they have done. Then these other committees will also call in those officials and probably examine them on the same question. That will not be desirable. I think everybody here will easily be convinced that two sets of committees examining the Minister and the activities of their Ministries on the same points will lead to confusion. Therefore, it may be we expand the Committee. We have a system by which the Public Accounts Committee appoints its own sub-committees which go into specialised investigation of departments. So I feel that we cannot think of a scrutiny better than of the type we have in mind viz., armed by audit, and by a complete examination of the accounts of the enterprise. If something of this type has to be done, it can be done only by a specialist body like the Public Accounts Committee assisted by the Audit. What is very important is that no attempt should be made to take away the powers of the Auditor General to scrutinise those accounts, because if you take away those powers what happens is that the Public Accounts Committee is not able to examine the accounts of these enterprises".

The second member who opposed the suggestion said, that the view that Parliament did not have sufficient time was not correct. He thought that if the Canadian system of control was introduced in India, Parliament would give the administration of state enterprises the same amount of time that they gave for passing the Demand for Grants. Since at present the annual reports were only placed on the table of the House, Parliament did not get an opportunity to discuss these reports. But if a specific demand was placed before the House, then naturally Parliament's attention would be attracted to that. The member felt that comparison with the practices in the United Kingdom was out of context because of the fundamental difference between the constitution of the nationalized industry in the U.K. and of State enterprises in India. In the U.K. the Government did not make any investments in the nationalised industries. These floated their own debentures for paying the owners of assets they took over as compensation. The State only guaranteed these debentures both for the payment of interest as well as the payment of the capital. In India this has been done in the case of some private industries but nobody in Parliament ever claimed any right of supervision over these private Companies. Public enterprises in India were created by direct investment of State funds and so the position was entirely different. The mechanism of control was also already there viz., Public Accounts Committee and the Comptroller and Auditor General. I suggest that the duplication of Parliamentary Committees would only lessen the responsibilities of the existing institutions and create a great deal of conflict and disharmony between Parliamentary Committees. With great respect, I would like to say that in my experience the Estimates Committee and the Public Accounts Committee had occasions sometimes to consider the same questions. If they were to come to conflicting conclusions, it would only give the administration an avenue to escape liability and responsibility and also avoid criticism. They could play up one Committee against another. I think it is very dangerous to go on creating Committees. Our production activities have been in the creation of Committees and I would strongly recommend that Parliament should not also indulge in this type of production activity'

Opposition to the suggestion came from a third member who said that the difficulty arose because, as economic development resulted in the setting up of new enterprises by the State, in reality the Shareholders remained to be 500 in the Lok Sabha and 250 in the Rajya Sabha. The shareholders of the nation were not brought in. In order to watch the growth of these enterprises, what was needed was a shareholder's committee. The two questions were "How do you exercise the shareholder's control and how do you keep the shareholders informed ?" The Auditor General's powers

were there and that explained the position to some extent. But then the question was would the creation of another committee solve the problem ? "Is it not possible for the Public Accounts Committee to have its own secretariat which would have the same competence as the Economic Division of the United States Congress? Would it not be possible for members of the Public Accounts Committee to put themselves in touch with the shareholders of the nation ? Obviously, every member has got to specialise, somebody on steel, somebody on machine tools, and so on—but fulfil our main function which is that we want our shareholders who are the people at large, represented in Parliament. May it not be possible for the Public Accounts Committee instead of creating this additional body, to extend its activities to bring into life shareholder's committees in a great scale as in the United States of America".

Several other points were also raised in the course of discussion although they did not secure detailed discussion by the members. However, they are mentioned below:—

One member thought that the member of Parliament should ask questions only on matters of policy. "Of course we must take into account one important consideration, that many members of Parliament ask questions not for eliciting information but for finding their names in print and showing to their constituencies that they are very energetic and capable people. But for this psychological factor, we can always find ways of giving the members of Parliament all the information they want. As a matter of fact an enquiry to the Managing Director or a Chairman of a Corporation is likely to produce more detailed information than can be presented on the floor of the House. It will keep the members of Parliament in close touch with the State enterprises and will make them realise the many difficulties they have to encounter."

This was supported by another member who said that every Government department ought to be prepared and be required that if a member of Parliament brought to their attention a very particular matter, it should be treated as a matter of high priority. What should go before Parliament as a interpellation should be only a matter of public importance and not a matter of detail. In this connection he spoke about the role of the Opposition in Parliament. He said that at times individual members of the Opposition had a tendency to raise before Parliament certain issues connected with State enterprises not so much because they were of public interest, but because they were a good weapon to embarrass the Government of the day. In doing so, sometimes a lot of harm was done to the enterprise about which such question were asked.

Another member stressed the need to give Parliament detailed information regularly. He thought that by not giving the detailed information a feeling was engendered in the minds of the members that things were being kept secret although in fact there might not be anything very substantially, wrong. The member opined that there was a confusion about the role of Government in the enterprise. Parliament was not quite certain about the relationship between Government and these enterprises and partly because of this, Parliament was also not sure as to what its own real role was.

CHAPTER II

AUDIT CONTROL

The Statement of the Problem

At present the accounts of a Statutory Corporation are audited normally by an auditor appointed by the Central Government in consultation with the Comptroller and Auditor-General although variations do exist. For Companies the procedure is laid down in the Companies Act itself that the auditor must be appointed by the Government in consultation with the Comproller and Auditor-General. The main consideration here, is again the need to ensure that the taxpayer's money is well spent, that the enterprise does not use its freedom from Treasury control to the detriment of public interest. Which then is the best form of control ? Is it better to have an outside auditor to audit the accounts of the enterprise, but whose audit is subject to review by the Comptroller and Auditor-General, or is it preferable to have the Comptroller and Auditor-General himself to do the work as in the case of the Air Corporations, or is it more advantageous to have a highly specialised independent body to do the audit as is done in France. In that country a commission by the name *Commission de Verification des Comptes* was set up in 1948. It is more of a judicial body and is composed of several sections, each section consisting of five persons, including one represntative each from the Ministry of Economic Affairs and Ministry of Finance. It is the duty of the Commission to examine the accounts of public enterprises. It publishes a general report besides sending special reports to the Ministers concerned. Apart from examining the accuracy of the accounts of the enterprises, the Commission also makes observations about their managements and also suggests any change it deems necessary.

The points for consideration will include the following:

(*i*) Should the accounts of a public enterprise be audited by a qualified outside auditor ?

(*ii*) Should the Comptroller and Auditor General be given the responsibility entirely to audit the accounts of State enterprises ?

(*iii*) Should an independent agency, similar to the one in France, be set up for this purpose ?

(*iv*) Should the auditing of the accounts of public enterprises be different from that of private enterprises ?

(*v*) Should the Comptroller and Auditor General continue to exercise the higher efficiency auditing functions ?

I

Discussion mainly centered on the need for a higher efficiency audit. However, the members could not agree about the agency suited to do the work. One member pointed out that the function of higher audit was inherent in the power of Comptroller and Auditor-General as he was Parliament's guardian of the exchequer. And since substantial sums of money were invested in the state enterprises, the Comptroller and Auditor General should be the person who should do it. He said that although at present much could not be done because of the shortage of capable people, it should be possible, in course of time, to develop a proper organization and right conventions.

This was immediately questioned, however. One member said "We are now discussing the particular additional responsibilities which flow from public ownership. I agree that while you delegate nothing from Parliament which is sovereign in all respects, you cannot merely because of the fact of ownership take over certain powers and additional responsibility of the State enterprise, which are not written

in the fact that we are owners of these State enterprises. I do not think that shareholding interest is readily consistent or is generally deployed with a higher audit. To my mind the function of the shareholder does not involve a higher audit. So the answer is that the Auditor-General cannot certainly claim to be the agency of higher audit".

Another member said that what was required was to conduct periodic *ad hoc* enquiries into the working of these enterprises so that the efficiency with which they were run could be determined. He thought that such enquiries could be held once in five years or so.

The suggestion was endorsed by another member. He said that although in the U.S.A., some auditors claimed to do efficiency audit, actually they were all assisted by experts in the various fields and these experts made comprehensive reports of which only a part related to accounts. He claimed that any audit organization, not excluding that of the Comptroller and Auditor-General, could undertake efficiency audit of Government companies, was illusory. In this connection, the member quoted, at length, from the evidence of the Comptroller and Auditor-General of the United Kingdom, Sir Frank N. Tribe, before the U.K. Parliamentary Select Committee on Nationalised Industries, which is reproduced in the Report of that Committee dated 23rd July, 1953. In course of this evidence, the Comptroller and Auditor-General of the U.K. had observed that although he could undertake the audit of public corporations—though he expressed his disinclination to do so for reasons explained elsewhere—he would make it abundantly clear that if he were to be charged with this duty of auditing Government companies, "he would certainly not claim that he could undertake an efficiency audit". He did not see how any auditors, whether in private service or belonging to the organization of the Comptroller and Auditor-General, could really make any report on whether a company or corporation was taking the most efficient steps it could to promote and give effect to its objectives, as set out in its charter or memorandum of association. That was not a thing which one could judge from accounts. Although certain accountants in America did claim to do that kind of accounting, they did so only with the help of experts in personnel management and other types of efficiency, including often technical engineers and other technicians, all of whom were on the staff of the audit firms. So, the Comptroller and Auditor-General of the U.K. was clearly of the opinion that if Parliament wanted to have a periodic examination of the efficiency of any of the industries in which Parliament was interested, he did not believe that this could be done merely by an examination of their accounts. The member added that the best solution of this problem lay in the appointment of *ad hoc* committees of the type of the Herbert Committee or the Fleck Committee in the U.K. "There is no other way out. What we cannot do we should not pretend to do".

The need for a special machinery was also underlined by another member, who, however, thought that instead of *ad hoc* committees the work should be done by a permanent body. This was necessary because any *ad hoc* committee was bound to upset the normal working of an enterprise. Of course, when there was a scandal or a special difficulty then special committees could be appointed but for a regular efficiency evaluation a permanent body would be better which would have the necessary expertise at its command.

This suggestion found favour with another member also who made the following observation. "There are three aspects of the performance of public enterprises which need to be kept separate while making up our mind as to the appropriate agency for that audit and review. One aspect is the mere correctness of accounts by reference to prescribed procedure. Now, that prescribed procedure may be either merely what is called 'financial' in departmental terms or even what we call commercial audit, i.e., it only checks conformity to established or prescribed procedure. This

audit has to be done by the Auditor-General, because he is concerned with all public expenditure. But one is entitled to expect that the Auditor-General equips himself with a unit which has knowledge and experience of commercial audit. Now this also could be really a formal audit, though it would be more appropriate to commercial audit. Now this also could be really a formal audit, though it would be more appropriate to commercial audit rather than departmental audit. But beyond this formal audit which is quantitative than qualitative, there is a review of propriety of transactions with reference to recognised principles, which are appropriate in each business. The Auditor-General is not in a position to judge these even with a commercial unit attached. These must be judged where the quality of judgement comes in and the propriety of transaction is challanged. These must be judged by an agency whose own knowledge and experience qualifies it to judge the propriety of transactions. This agency can be located only in the executive Government. A Board of Review composed of people with business and management experience on the highest level is called for. Such a body may consult technically competent people and probably for each industry or group of industries they may have them at appropriate levels. But this Board of Review, though it may appear to be *post facto* would still have value for management because management is a continous administration. The Review Board may also pronounce on the soundness of judgement apart from propriety of procedure. Parliament will have before it all these reports, i.e., the reports of the auditors of the enterprise itself, the report of the Board of Directors of the enterprise, the report of the Auditor-General which would be through his commercial audit unit and finally the full report of the Review Board, which I feel is necessary in view of the large number and the important role that this large number of enterprises are called upon to play."

Another participant who supported the suggestion for a special body said that what was important was that Parliament should know what was happening. So there should be a body of experts who would give their whole time and attention and in this way assist the Minister and Parliament in arriving at the right decisions.

II

The following other points were also mentioned. One member thought that there was no particular advantage in having a qualified outside auditor to audit the accounts of the State enterprise. So long as the audit was done properly it did not really matter who did it. However, he thought that even in this case it was not essential for ensuring Parliamentary responsibility that the Comptroller and Auditor-General himself should do it. "The shareholder's rights are entirely independent of the fact whether competent audit is by the Comptroller and Auditor-General or whether he is some body else."

Another member made the following remark. "We have tended to discuss in terms of who or what body should do the various things. We have not called into question the extent to and the manner in which they should go. Take for example flexibility. Flexibility is the opposite of regidity. Where circumstances so demand, you should be enabled to bend away, "flex" away from the rigidity of your rules and this implies two things; (a) the authority to bend away, where necessary should be there, and (b) a reasonable degree of freedom from being called upon to explain to a number of different people at different times, why you departed from this or that particular rule . So from this second aspect, there must be some assurance in any machinery of control that control does not operate as a straight-jacket. The manner of control, therefore, comes in. I have no doubt that the Comptroller and Auditor-General himself personally has correct ideas about the manner in which audit should be conducted. I cannot say that for his organisation. The Auditor-General himself does not do the whole work. He has to depend on a whole organisation. When we think of auditors we should think whether

each one of these people who is going to look at these matters and pass judgment is properly trained in exercising that judgement and how to express himself and so on. Little things can do a great deal of harm. I will give you an example from an audit report that went before a State Assembly. When in an audit report you find "it is difficult to believe that only four people tendered for this contract" it has enormous implications. When an Audit report goes out like that and is published in all the papers whether the P A C accepts it or not, the people have had it and the harm is done. There is a feeling of insecurity and it is for everyone to keep the total interest in view even in ensuring freedom of public scrutiny.

CHAPTER III
BOARD OF DIRECTORS
The Statement of the Problem

The Composition of the Board of Directors is a matter of vital importance to the successful working of public enterprises. As at present constituted, the Boards of Directors of most of the enterprises consist mostly of officials of Government although ordinarily non-officials are also associated. Some of them have fulltime Chairmen. Often a Secretary to the Government happens to be the Chairman of the Board of an enterprise under his own department and in some instances the Ministers have taken up the Chairmanship of the undertakings under their charge.

Several points arise in this regard. First, what should be the scope of the Board's functions ? Should the Board deal only with matters of policy ? Or should it be a Board of Management ?

A second point is about representation of interests on the Boards of public enterprises as for example consumers, workers, and other interested parties etc. The Estimates Committee of Parliament in its reports have supported the idea of associating individuals from the private sector with the Board and for this throwing open a certain percentage of the share capital to that sector.

A third point is about the kind of Chairman that a Board should have. The position of the Chairman is a crucial one. What then should be his qualifications ? Should he be a generalist administrator or an 'idea man' or an 'integrator' of ideas. It is sometimes argued that if the Chairman is too much of an 'idea man', then the other members will be inclined to leave things to him. On the other hand, if he is only an 'integrator' of ideas the Board should also contain other 'idea men'.

Since the Board of Directors is responsible for the successful working of a Government enterprise it is necessary that it is provided with the necessary powers. But the difficulty arises because in the exercie of its powers, sometimes, the Board may have to take into account considerations which the Board of Directors of a private enterprise will not have to reckon with.

The questions for consideration will, therefore include the following:—

(*i*) What should be the nature and functions of the Board ?

(*ii*) Should persons from outside the Government be brought into the Board, and under what conditions ?

(*iii*) Should there be interest representation on Boards and what interests should be given representation ?

(*iv*) Should a Secretary to the Government or a Minister be the Chairman of an undertaking under their charge ?

(*v*) What should be the powers of the Board of Directors ?

(*vi*) What should be the modes of accountability between the Board and the administrative Ministry of the Government ?

I

Several points were raised in the course of the discussion. The first one related to the nature and functions of the Board. A number of participants complained that at present the Boards of State enterprises were practically Boards of Management rather than Boards of Directors. A Member of Parliament said "I would suggest that the Boards of Directors should not be the Boards of Management. We should have separate Boards of Management under them. The Board of Directors should be the policy-making organisation just like any other Board of Directors in private Companies. Under them should be the Board of Management or the executive Board of full-time stipendiary Directors who would be on

the spot and would carry on the day to day administration. I would therefore, say that the Board of Directors should be the genuine policy making Board with an executive committee or a Board of Management functioning under them, some of whom may be also members of the Board of Directors, but not necessarily, but answerable to the Board."

This was not acceptable to another member who said "In the nature of things it is difficult in the case of Board of Directors of public enterprises. In a private enterprise, the Board of Directors consists of people some of whom will be policy-makers on behalf of shareholders. Here in a public enterprise, the policy making authority is not really the Board at all. It is rested somewhere between the Ministry at the top level and the representatives of the Ministry on the Board, and therefore, the idea that the Board of Directors must be the policy-making body does not meet the situation. In public enterprises it is in the nature of things that the Minister has a final say in the matter.

"I have been trying to explain that there is a slight difference between the composition, functions and the nature of the Board of Directors of a private business and a Government business. There are certain things which are special to public enterprises. For instance, if a private business Company makes profits and it wants to expand, it does expand. In public enterprises, the question whether it should expand and utilise its funds for any other purpose is a matter which is not done by the Board of Directors. It was to be done essentially by Government and that is the point of differentiation which we have to make. Secondly for instance, suppose you have power supplied by a certain organisation for a public concern. Now, if the cost of power is high, then the private businessman can say "I would not take part in it. I shall put up my own generator or do something else". Now, this sort of things, again, will not happen in a public enterprise, because it has to work within a certain frame laid by Government. For these reasons, you would definitely say that the Board of Directors are essentailly Boards of Management working under a policy and framework set by the Government, and only to a limited extent can be regarded as policy-making in the sense in which a private Board can be policy-making."

It was immediately challenged by the previous speaker who quoted the British practice. "The entire pattern in Britain is just the reverse of what you are saying. For example the London Passenger Transport Authority, the Coal Board, the B.B.C. and anything one can think of are completely autonomous policy-making Boards of distinguished people in the world of business, policy and public life, who are exactly in the full sense full-fledged Directors of the Company as effective in policy making as the Board of Directors of any limited Company. This is because there is genuine autonomy."

Another member who agreed with this view said that the Board of Directors should be a policy-making one and should be distinct from the Board of Management. The latter might meet according to the needs of the situation, might be once in a week or in fortnight. He questioned the suggestion that in India a Board of Directors could serve no useful purpose. He also cited the practice in some large American Companies which were bigger than several of the Indian Companies put together. Further, he said that a study conducted by the Harward Business School had come to the conclusion that the most important function of the Board of Directors was to ask intelligent questions. Thus he was in favour of having a real policy-making Board which had the power to take decisions.

Still another member said, "if you definitely decide that within the given time of production, this is the planned production target, within this cost, you should give the Board of Directors full authority". The member was also in favour of having a Board of Management over which there would be a governing Board which would have the task of overall control.

Agreeing with this view another participant examined the question in the following way. He asked "What precisely are the functions of the Board of Directors even in a private limited company ? I do not think the Board of Directors ever run a concern. The Board of Directors consists of a group of men who have fairly wide experience and whose general advice is valuable. So efforts are made in a private Company to draw for the purposes of the Board people who have considerable experience and standing in the business world. I feel in public enterprises also, in course of time, may be in the next five years or ten years, we shall have a group of men who shall be devoting their time to the running of these concerns. They will build up a considerable amount of special knowledge and they will be in a position of working on different boards to provide different kind of advice".

The question was analysed from a different angle by one who said: "I think there should be unity of command in management, and consequently, there should be a Managing Director, if all the members of the Board who make the policy are not themselves responsile for carrying it out. Either you have such an arrangement or you have a Board of Directors, all of whom are responsible for implementing their collective decisions in their respective departments and one of them is the Chairman. It is not desirable to have under the Board of Directors a committee of management responsible for implementing the decisions of the Board, because there will be no unity of command in implementing policies. An undertaking must have unity and continuity of purpose. Its Board of Directors must also, therefore, have unity and continuity of purpose. I thought that the Government of India decided to adopt the Company form for public enterprises, largely for this purpose and for detaching the whole operation of public undertaking from the normal way in which a Government department functions. Even when departmental heads function as members of the Board of such an undertaking it is not as if that they should get together *ad hoc* and come to *ad hoc* decisions on matters pertaining to the undertaking."

Another member who had experience of the working of the Board of Directors of a State enterprise said that the best practice would be to have a Board of Directors with an executive Board as was the case in the Hindustan Steel Ltd. He said that the Executive Board should be able to dispose of many matters which otherwise would require the attention of the whole Board, it being open to the Executive Board to reserve for the consideration of the Board of Directors any matter that it considered necessary.

Support came from another member who made the following remark. "On this subject, policy and management, I personally think that it is necessary to distinguish between two aspects of policy. One is policy of what and the other is the policy of how. The policy in regard to what is necessarily going to be determined by the State. It may be the broad objective, it may be priorities in attaining these broad objectives, etc. What is to be done will always be determined by the State. That is the objective for which the Corporation is set up. But once that objective is given to the Corporation, then how it is to be done is a matter primarily for the policy-making functions of the Board of Directors. If it were not so, then there would be no justification at all for setting up the Corporation. Then also with regard to the point of management it may be that for the sake of better efficiency, better speed, better elasticity, some agency or instrumentality below the Board may be created either in the Act or by the Board itself. It may be the single Managing Director, it may be the Standing Committee, it may be the Board of Management, but so long as the responsibility for the management of the enterprise is placed in the Board, we must take it that the Board is sufficiently empowered to take the final steps even with regard to management. In regard to policy-making there is this limitation that the 'What' is given

by the State and though in regard to the implementation the Board may create any instrumentality below that if it likes, I think so long as it is a Corporation, the responsibility for management must rest in the Board".

In this connection it was observed by an experienced businessman "I would like to draw an analogy from the success or failures of what is happening in private enterprise in the country. My personal inclinination is that there should be a Board which is largely a policy-making Board. It should not be burdened with day-to-day executive function for which there should be either an executive Board or something similar. But the Board itself must be an objective Board; if it is involved in the day-to-day functions then it becomes so much interested in its own success or failure that it will never be able to assess objectively and correctly all that is happening. It should be a Board consisting of specialists in different subjects: finance, management, accounts, buying and selling, etc".

The suggestion was also supported by another member with experience both in the private and public sectors. He said that the contention that the Boards of Government enterprises could not be really policy making as was suggested by a member could not be correct. Whether it was a government enterprise or not the Board should be a policy-making one. The best solution lay in having a Board of policy makers and an executive Board which would manage the day-to-day administration of the concern.

II

A second topic which was discussed in some detail concerned with the role of the Government officials on the Board. At the outset a member expressed the view that in many cases Government officials were nominated simply because they were officials of the controlling Ministry and that often they could not be effective members of the Board and take independent decision as they did not know in which way the Government would jump. Therefore they wanted that officials of the Ministry controlling the enterprise should not be Directors. The member looked at the question from the point of the purpose of the enterprise. "What is the public purpose if a producing Corporation or a private limited Company which is created to produce telephone equipment or steel or fertilizer? I thought the purpose was to produce the best quality of goods at the cheapest price. I thought the purpose of setting up these Corporations was in fact to make available to the country and the consumer articles of the best quality and at the cheapest price."

Another member said that it would be better to run the enterprise departmentally or to have a departmental committee of officials to run the enterprise rather than set up a Board of Government officials who could not really be independent of the Ministry. "There is no reason at all why, if it is the intention of the Government to run its airlines in the present manner, i.e., by having a Board of Management on which various Government people are appointed, there is no reason why it should not be run departmentally by the Civil Aviation Department with a committee of officials to advice the general manager. What actually happens is that some people from different Ministries are nominated on the Board. Each member of the Ministry in whose charge a thing is may have one view. But the representatives of two other Ministries cannot express unless they have consulted their Ministers. That Minister may be on very bad terms with the other. The Minister may not even be on speaking terms and say "damn this fellow here, make his work difficult". So, Sir, if you have Boards of this type, don't have it; have departmental management".

Criticism of the behaviour of the officials come from another member with experience in Boards of Directors of Government enterprises. He said "What I have noticed as a most disconcerting creation of such officials on the Board is that they are merely channels of communication. If like all other members on the Board, officials were to

identify themselves with the responsibilities of that Board and then bring to its discharge their special position, their special experience, their special talent, it would all be very good. The real disconcerting part is that they are merely channels of communication. All this sort is a variable feature again. So, that type of person on the Board does not add at all to the efficiency or to the integration of the Board and that causes considerable disturbance which is neither to the interest of the Government which sets up that Board nor to the smooth running of the internal administration. So, this much at least should be clear. No type of official nomination should be had to a Board which is not of this character, that is to say once appointed there he puts himself entirely at the disposal of the concern rather than be the watch-dog of the department on the Board and such a representative person on the Board should be considered unsuitable".

Another member who had visited a large number of State enterprises and met those in charge of them made the following observation. "I would not like to give individual instances, but I am aware of many cases where you get the same complaint that the people who are attending the Board meetings, change too frequently, come infrequently and when they come they have not had time even to read the papers. If the Director is from Finance, he would raise a point about some financial or other procedure and call for the information at the next meeting, and urges to postepone the decision till then because he is not individually responsible whether the particular enterprise or particular Company flourishes. The number of changes in the Board of Directors are very frequent. Practically very few Directors are there from year to year. Every time he has to examine and study anew what is happening and so decisions have to be postponed. Sometimes Ministers are put on Boards. Well, Ministers are even less of experts on this sort of problem and also more prone to be influenced by considerations other than efficiency than even non-officials would be. An official, on the Board, is more prone as an official to commit himself even to a non-written directive given by his Minister than he would be if he were an independent officer put in charge of something. I think many of the charges about favouritism and so on are due to the fact that ex-officio Directors have to take directions from the Ministers. If the Board were independent, it could say: "Unless we are given a directive from Government in writing we will not do it". That they will not do unless they are independent. So once you decide that the task of the Board is to manage and that of the Government to decide on all matters of policy, then I think this problem will be more easily solved.

Agreeing with the above view one member opined: "In the public sector there should be more people specialised. It should be an economic civil service, whether you like it or not. There must be men who are devoting their life-time and it is out of them that your Board of Directors should be created. May be in course of time our teachers in Economics in Universities become a little more specialised, but ultimately it is this kind of people who are able to judge the implications of different things that are to be done, who are needed. I believe the time has come when we should try and build up a group of men who would be able to discharge this responsibility. The State Bank for instance should have a number of men who might be specialised in a number of matters. Finance men of experience will be picked up on the Board of the various concerns, because they have first class understanding of what is to be done. I do not think a Joint Secretary of Finance Ministry knows as much."

Another member who was connected with the Board of Directors of a large State enterprise said that always the particular Director who was an officer of the Finance Ministry thought that he was representing the Finance Ministry. "I have felt that this is something which we should not accept. He should sit there as an individual. May be his

financial knowledge is of value. That should be respected. But his decisions should not reflect that he is speaking on behalf of the Finance Ministry. But here the case is as may be in any other Company—I think invariably he takes the stand that he is there because he is the Joint Secretary of the Finance Ministry".

The same view was expressed by another member who said that if the Joint Secretary himself was an expert then his full allegiance should be to the the concern and not to the Ministry when he sat on the Board.

The position of the Finance Director received this further comment. "If the Finance Ministry is prepared to concede to other Corporations the same degree of autonomy for a period of time that by traditions they have allowed to the Railway Board, probably even the relations between their representatives on the Corporation and the management will develop in a healthier way. What is happening is that during the last four or five years during which those Corporations have been set up and these finance people have been appointed they are not being actively encouraged to build up these relationships. Rather there is too much interference, too much meddlesomeness, too much desire to operate even small details of financial arrangements in keeping with what somebody in the Finance Ministry, that also nobody knows, whether it is at Deputy Secretary or at a much lower level—feels. The Railway Board is not a Corporation; it is a separate administration within the Government. If at least, the separateness of the administration of a Corporation is admitted to by all Ministeries, not only Finance, but by all Ministeries, there will be time enough in ten years to develop a healthy tradition".

In the same strain one more member complained that the real difficulty arose because more importance was attached to the official position rather than to the expertness of the person. "I think that whether you start with officials or non-officials it does not matter at all; you have to select men and select them for their abilities, competence, experience and background. Having selected them they must owe allegiance to the Board, full allegiance to the Board and they may be officials".

Another member said that official Directors should not take a briefing on the Agenda of a Board meeting from the Minister or the Ministry.

Two members, however, felt that there was a great deal to be said in favour of having officials of the concerned ministries on the Boards of Government enterprises although they also were of the view that the choice of persons should be on the basis of merit and not on the basis of official status. They thought that since the Ministry was vitally interested in the enterprise it would be necessary to bring the Ministry's point of view to bear upon the decisions of the Board which necessarily had to be in conformity with the board policies of the Government. One of them said that it ensured better coordination. He said that sometimes to have expeditious work done by the Company certain of its decisions would have to be approved by the Government and this would be helped if the Government officials were there. At the same time he added "I do agree entirely that it is very wrong for the officials to be there merely because they happen to be just officials. You must have a man who has knowledge and you must put him there long enough to bring his knowledge and not change him frequently".

III

Another point which received significant contribution from the members was about the question whether non-officials should be nominated to the Boards of Directors of State enterprises. The ball was set to role by one discussant who said that when an enterprise was organised in a corporate way, there should be also non-officials on the Board. The suggestion was forcefully supported by a member who said that the question should be examined from the point of view of the functions of the Board. "What precisely they do ? They are

concerned with problems of sales, problems of what are they going to buy. Should there be bulk purchases?; should you employ some selling agents ?; with what bank are you going to have overdraft arrangements?; stocks are filling up etc. They are the questions of expertise and therefore, it is very necessary, I would say that the Boards should be mxed Boards. People from the private sector with business experience, should be drawn out to the Board".

Another member made the following observation: "On that subject I happen to have some experience both of wroking on mixed boards and also purely official boards. Two or three years ago, being exasperated at the meddlesomeness of the Ministries in concerns which were supposed to be autonomous Corporations, I took the view that rather than keeping these misleading and somewhat undesirable state of affairs, it would be better to turn them into departmental boards. But the view that has been forced on me by actual observation of what has been said about the play of minds etc. is different. Even if the percentage of non-officials is limited to 20 percent, I must say that there are lots of things, which may for the success of an enterprise even in its day-to-day efficient running; would never strike the purely official mind till that capacity is developed after ten or fifteen years when it will become a second nature.

"Now, I shall be completely disloyal to my colleagues if I refrain from saying that I have seen a banker working in a purely non-official capacity in, what you might call, a public bank attending more regularly, more zealously, in a more personal way to his duties, as a member of the Board of what is not his own bank or what may be semi-public bank. Now you might say that such instances are rare. But these are the very instances which have made for the success of that type of institution. But even in others, where it is not cooperative. I mean to say purely public where all the capital is of the Government, whatever business sense has gone into its initiative and working, has, to a large extent, come from the people who every day are doing all this business, and had similar experience in the past. I would put it the other way and say that these people know almost by instinct what is to be avoided. And that is a much greater contribution to the success of the enterprise than having a mere poper flag. Here it would not be proper to generalise, I am only saying that the joint working of persons, i.e., of those who are operating in official capacity, (because they represent the authority which now must be behind that organisation and they also have the mind of the Government to be well reassured on broad lines of policy) and of the representative who come from other sectors of experience, (which now for the first time have become wider to public purpose) are essential".

Fully supporting the above view another member observated; "I suppose I have been about on as many Boards as anybody. On the Boards I had the closest association with non-officials. These non-officials, far from being negative, have made a very positive and most appropriate contribution to the success of these enterprises than very often the officials who were not so well experienced. I tell you one thing, in costing at Sindri, the non-officials have been more helpful than the officials and I can make this confession".

Support for inclusion of non-officials came from another member who said that the purpose of forming an autonomous enterprise was to maintain a continuity and unity of purpose. "If that view is right, I should imagine, that such a Board should consist of the best talent you can get and you need not assume that the best talents are only to be found in the private sector or in the public sector. There is no reason why you should say in advance that a Board in the public sector should consist only of people from the Government. On the other hand, I should say, that in so far as some of the members of the Board will be Government officials, perhaps of the particular Ministry concerned it is only reasonable that the Board should include non-officials who will constantly

challenge if the official members tend to forget the autonomy of the undertaking. Therefore, I believe, that persons from outside are the safest to guarantee that autonomy will be maintained".

Still another member who was connected with the setting up and administration of some public enterprises felt that as far as policy making functions of the Board were concerned it was always desirable to associate non-officials of high standing who had no monetary interest in the concern.

It was suggested by one that the proportion of non-officials on the Board could be even as high as 50 percent. He cited the example of a Government concern of which he was a Director. This concern had a non-official Chairman. To his mind, the ideal Board would have 50 percent officials, 50 percent non-officials with a non-official Chairman.

Another remarked: "We want to manage these concerns very well and effectively. That is the main objective. We want specialists in buying, selling, management, techincians and all that. Whether they are officials or non-officials should be really a minor matter."

At this stage a member said that while the bringing in of non-officials to work on the Boards would be desirable it was also necessary that once they were in, they should receive the same degree of protection as the officials got. He said that if they were criticised on the floor of the Parliament, as has happened before, it would be an unhealthy practice. Secondly, if the choice of the non-officials was left completely to the Minister, considerations of nepotism and favouritism might creep in. So it was necessary to consider whether there was any means by which these unhealthy practices could be avoided. The member thought that if a standing Parliamentary Committee was appointed, which would reflect the various shades of political opinion represented in Parliament, it would be possible to have this committee consulted, not necessarily to get its approval. In this way it would be possible to select the person in a more agreeable manner.

This suggestion that Parliament should in some manner or other be associated with the selection of the non-official Director was opposed by some members who said that it would produce no better results. As things stood in the country and particularly in view of the present stage of development of democracy, the difficulty mentioned would still exist whether directly or indirectly. Another member said "it is a most dangerous suggestion. Let us face the music. The chances of taking the corrrect decisions are greater now". However, all were agreed that these non-officials should not be unnecessarily criticised. One of them said "Assuming that they should be selected, it should be in a way that itself looks good to everybody. They should also be given the same protection that officials are given in the line of protection behind their Minister."

One member asked a non-official participant "If tomorrow you are offered a Directorship, would you take it? The reply was: "I would take it. But my taking it would be not because I gained anything out of it, but because I feel it is a service which experienced businessmen should do to Government even at a slight risk. I really feel that we may have differences of opinion, but once we have joined a Board, I think all of us will put our best experience and knowledge to the service of these Companies to try and make them a success."

The same line was taken up by another member who although believed that the job could be done much better without State enterprises said "Now Sir, it is quite clear that if I am asked to serve on the Board of Directors of a State enterprise or even asked to advise as a labour expert on labour relations or any of that type, I would either feel strongly enough not to accept it or if I accept it, surely, inspite of my feeling that this is a wrong policy, I would do it with the fullest intention and desire to make a good show of it. I think we must accept that position."

Another member said "I fully agree

with you from my personal experience as an official on the Board,,.

Still another member "My experience is the same."

Slightly different was the opinion of another member who felt that criticism of the non-officials was bound to continue and therefore it would be better to have them only on the Boards of such enterprises as the State Bank of India; but for others like Sindri Fertilizers it would be better to have only official Boards.

However, opposition to non-official representation came from two other participants. One of them said "I am very much against a business man being on these Companies. A mixed Directorate of this type will be dangerous for the very simple reason that just as no politician retires similarly no businessman retires. After all private business is business based on competition. That is the essense of business. Nobody, no private Company dreams of having its competitor on the Board. It is against all sound business principles. Therefore, my view is that there is no place for a businessman on these Directorates". He said that if one examined the working of enterprises which had mixed Directorates, it would be found that they were no better than those managed by completely official Boards. Moreover, all criticisms of the public sector were made only in the initial stages and once the industry had got going the criticisms died down. But then many matters like source of buying, locations, etc. were determined by the Government even before the Board was constituted as many of these concerns were started after negotiations with foreign parties. Moreover, the Government enterprise must follow the open system of calling tenders, buying through the Director General of Supplies and Disposals, etc. So whatever advantages could be obtained by having non-officials would not be possible. "I would rather risk a little ineffeciency than import all kinds of competitions in this manner. Even in the private sector, if an investigation were to be made as we have made in certain of our public concerns, I think much worse things will come out. Is it to safeguard all that we are going to deviate from a very sound principle."

A second member was also strongly opposed to the association of non-officials on the Boards of Directors of Government concerns. He said: "It is perfectly true that real autonomy is not conceded, that what we are discussing is the fictional Companies and Corporations. It does not matter if Government takes advice from any body. It can have advice from suitable non-officials, even if it was a Department; there is nothing to prevent departmental running. Again, there is nothing to prevent Government from seeking advice from non-official advisory committees. These non-officials join the advisory committee which is put in charge of running this particular concern subject to the orders of the Government. But there should normally be no non-officials. A large number of non-officials in this country are strongly of the view that public enterprises ought to fail, that there ought not to be public enterprises. The less they are the better. In these circumstances, however honest their particular approach to the task may be, this is the background of their thinking. There is a great deal of feeling amongst business people, who run businesses, that the expansion of the public sector is a bad thing. They have put it in Chembers of Commerce pronouncements. Now, putting people with this kind of background on Boards itself shows the kind of work they are going to do. Of course, there are exceptional cases, people who would go even against their interests, but these are very exceptional people".

When the member was told by some others that even if a non-official did not believe in the public sector, he would still serve a Government enterprise well he replied: "The position is simply this. If you are of the the opinion that people are so detached in this country, which is well-known for spiritual detachment, and that this detachment is so special a feature of the entire business community that they can divide their mind into portions and say, when I am

a Director, this is my Dharma as Director, but when I am elsewhere what I may do in this Dharma goes against that Dharma then, I say, by all manner of means, as many businessmen. All I would say is, when you are asking businessmen, discriminate, and see that you do not add others".

IV

There was some discussion about a related topic viz., interest representation on the Board of Directors. The principle of interest representation was not questioned by any but there was a considerable measure of disagreement about the interests to be represented. One member said that the interests to be represented must be the concerned Ministries including Finance. If a Ministry itself was the main consumer, it should be represented, but he was not in favour of giving representation to other consumers.

Another discussant said that representation should be given to businessmen of experience, to labour and to consumers. A third member thought that representation of consumers to be inadvisable. He said: "We want a homogenous Board. What will the consumer do? He wants to be represented to safeguard two things: seeling price and quality. I think that any manufacturer and a Board consisting of ten or twelve people are bound to take care of the quality and cost of goods". This member was in favour of giving representation to labour and of having members of Parliament on the Boards of Directors because they would represent as it were the financer's interest.

This was not agreeable to one member who said that as Companies in the private sector had consumers represented on their Boards, Government enterprises also should follow the practice. This was endorsed by still another member. He said : "If it is consumer in the sense of general community, I do not think it means anything. But there is a kind of production relationship and if there is a cooperative society handling the products, I would like an official of the society, not necessarily a paid official, to be on the Board".

Several other members were opposed to including a member of Parliament on the Board because "he is the fellow who is finally going to say whether the concern is working well or not," and secondly because once he became a member of the Board he had, of necessity to become its lobbiest and such one he should never be.

V

The Chairmanship of the Board was another topic which received some attention of the Seminar. All were agreed that the Minister or the Secretary to the Department controlling the enterprise should not be the Chairman of that particular enterprise. A member said that the Chairman should be a fulltime man. In no case should he be the Minister or the Secretary. Still another member was quite emphatic that he should not even be a member of the Board. He said that there could be two alternatives. One was to have a full-time executive Chairman and the other would be to have a Managing Director with a non-official titular Chairman. Another participant declared, "I agree with those who said that neither a Minister nor the Secretary should be the Chairman of any Board".

Agreeing with this view another member said that the Minister becoming the Chairman would be constitutionally "improper". "If you are building the whole thing on flexibility, delegation, autonomy, etc., then for the Minister himself to be there is not proper because it would mean that the Minister reserves the right to accept or not accept what he himself is doing".

According to another member even from the point of view of practicability, i.e., finding the time it would not be good for the Minister or Secretary to be the Chairman. Some other members also expressed the view that the Chairman should only be a titular head. One of them said "I would suggest that this Chairman should be more or less titular and there should be whole-time Managing Director". Another said "It would be better to have a non-official Chairman of status and drive and then have a

General Manager."

Other considerations supporting this view were mentioned by others. One of them said that it should depend upon the work-load. If there was enough "policy-load" then the Chairman should not have "management load" and it would be better to have a Chairman for policy-guiding purposes.

The reason given by another member was that if the Chairman himself was the Chief Executive, where there was a Board of Directors, it would be very embarrassing for the members to question him for his actions. "He might try to be very fair and may want the discussions to be carried on in a free manner, but it is just not possible. Free discussion is inevitably throttled whenever the person whom you have got to criticise is also the person in the Chair." This he testified from his own experience of a public undertaking.

There was one member, however, who said that whether the Secretary should be the Chairman or not depended upon the extent of autonomy the enterprise enjoyed. If the Secretary was not the Chairman, the best solution would be to have a single person both as the Chairman and the Chief Executive.

The concluding remark about this point by a member was the following "While we should not have the Secretaries to the Government as Chairmen of the Boards of Directors, I do feel that in course of time within the Governmental set-up, you will have to develop men who can act as Chairmen of these Boards, though they need not be full-time Chairmen of these Boards. They may be Chairmen of two or three or four Boards. But the Chairman should not be the Secretary to any Department. In other words, a specialist within the field will have to be developed. That is a task which in course of time will have to be faced.

VI

Another topic which was discussed at considerable length was the powers of the Board of Directors. The question was not discussed from the point of the specific powers of the Board but from its over-all functions as the agency responsible for running the enterprises vis-a-vis the powers of control by the Government. In other words, autonomy of the Board in relation to Governmental powers was the main theme of discussion.

One with experience as a Director said that a Corporation "should really have no accountability to the Ministry, as a Ministry. In fact, it is to take it out of the Ministry that a Corporation is set up. The Corporation has certainly an accountability to the Minister, because he is going to represent it in Parliament, and if by Ministry we mean the entire organisation, actually it becomes accountability to an Under Secretary and sometimes even lower than the Under Secretary. Now, in a single Ministry you will have a variety of different types of inner cells. You do not expect the Ministry even to be technically qualified to exercise any power of accountability that may be vested in them. And unless we take care to see that the position of a Corporation vis-a-vis the Ministry is definitely kept independent, not only the advantage of having a Corporation goes, but a large amount of purposeless and most uniformed measures and delays that occur and on some of which a number of our students and college students have commented, really arise out of that. Therefore, there should be no accountability to the Ministry as Ministry. For the purpose of enabling the Minister to discharge his responsibility in regard to a particular Corporation, the machinery to help him is in the Corporation and not in the Ministry. He has many other things to do and it is with regard to these other things that he has assistance from the Ministry. For everything pertaining to the Corporation, all his assistance must come from the Corporation."

The position was sought to be clarified by another member who said that there was a great deal of misconception as to what a Ministry was. He said "The Ministry is really an extention of the Minister. It is the staff at the disposal of the Minister to enable this "one man,"

to take decisions or allow them to be taken on his behalf by some of the people below. The Ministry does not exist separately from the Minister. The point which has been made out is really about the way in which the accountability is exercised and about who is entitled to call to account. In the same analysis, by Ministry we mean the Minister, and by Minister we mean the Ministry; they are not separate. I agree entirely and whole-heartedly that in dealing with every proposal and problem coming up from the Corporation, it would be wrong for the Minister to say to his Deputy Secretary or Under Secretary, "Please examine this and give me your notes thereon". It is a question of at what stage the Minister's mind will be applied and with what assistance. Obviously, the Secretary who is the principal adviser to the Minister cannot be left out of the picture. We have had some extraordinary things like a suggestion from the Estimates Committee that the Chief Executive of the enterprise should be responsible directly to the Minister and should not have the Secretariat interpose between him and the Minister. The answer is that the Secretariat is never interposed. Secretariat exists, it is not interposed. It is for the Minister to say "all right, Chairman, I trust you. You send me your proposals direct." It is for the Minister's judgement to decide as to how many and which members of the staff should be called in to assist him".

This explanation was not quite satisfactory to the previous speaker. He said: "Within the Ministry if he (Minister) calls merely the Ministerial staff in a different sense as for instance his Personal Assistant, that is a different matter. The Secretary, Dy. Secretary, etc.—that hierarchy—has got no relevance to the discharge of the Minister's responsibilities vis-a-vis the Corporation and if that is done, it means the Secretary is setting himself up as a superior authority, a superior source of judgement over matters of which neither does he understand anything nor has he responsibility and certainly no relevancy vis-a-vis Parliament to which this responsibility is owned.It is for lack of stating this position clearly that all the trouble we have about Government interference. I think it is more often because of the Secretary's assumption of certain powers with regard to everything that is under the Minister rather than under the Ministry."

This point was examined in a slightly modified manner by another member. He observed, "The question is whether in the line of command, the Secretary is practically or theoretically interposed between the top management and the Minister. Constitutionally he is not directly in command, over the Board of a public undertaking; in practice he should not assume that position, nor should his Minister agree to or acquiesce in the Secretary assuming that position. This does not mean that the Minister should not receive any advice from his Secretary."

Another member said that the Secretary was the permanent adviser to the Minister and he was the person who had to be consulted. The Minister might choose not to consult him; but if he did consult, nobody could object to it. "Constitutionally only if the Minister says to him, I want your views on this, he gives them. It is open to the Minister to say that these matters I will deal with myself. Then the Minister may take the blame himself."

At this stage the member who originally made this point said that what he objected to was not to Secretary giving Secretarial advice to the Minister but his giving technical advice. He said: "If the Secretaries act Secretarially and not technically, they would be entirely within their proper scope of action. But, somehow or other Secretaries especially at the Government of India level are accustomed to work without having technical departments to work under them. Therefore, here more than even in the State Governments, the Secretaries are also accustomed to act in what I might call commanding positions. So long as it is clear that they are not in the line of command, then what is expected of them is not a technical contribution to the merits of the proposition, but ministering to the Minister with a

view to make the cases available to him."

Even after this, the position was not accepted by others in the same way although all agreed that the Secretary should not interpose himself between the Minister and the enterprise. One of them said that as the points which came to the Minister from the Corporation might not be self-contained in one Ministry alone. Consultation with other Ministeries was needed. Sometimes one Ministry might control four or five enterprises. Repurcussions of a decision might not be confined to one Ministry. So the Ministry would have to consult others which could only be done through the Secretary. So, it might not be possible to restrict it to Secretary; even Deputy Secretaries might have to be brought in.

Expressing support to this view another member said "It is quite clear that the control and supervision the Minister exercises is really an aspect of Parliamentary responsibility. The Minister is not there in any other capacity except that he represents Parliament. Hence, the so-called Ministerial supervision and scrutiny over the affairs of Corporations or Companies is really an aspect of Parliamentary supervision. Then the rest of the question, how the Minister exercises it is a matter of purely internal arrangement for the Minister. He is not bound in the particular case, as he is bound in the case of departmental work, to consult the Secretary."

A member who had experience of the private sector drew a comparison with it and said that the problem under discussion was not anything unique to Government enterprise. He illustrated it by the example of Uniliver in England. It has a Central Board in London which is assisted by a number of advisory departments in supervising the operations of subsidiary companies. When communications from a subsidiary went to the Director on the Central Board who is responsible for a particular country on the Central Board, it was for him to call in the appropriate department to process the matter and then take the final decision. Likewise, in his dealings with a Government enterprise, the Minister would consult his Secretary. However, the command must come from the top. He added "The question, again, is whether the top management of the nationalised undertaking has a right to have direct access to the Minister, and I think the fundamental point is that the right to direct access must be conceded. It should not be said that every thing must necessarily be routed through the Secretary."

Another member: "I agree about direct access entirely. In fact arrangements should be, first, the enterprise should not have to refer to the Ministry anything except a matter of major policy, and second, if such a reference is made to whomever it is addressed, it should be brought to the personal notice of the Minister before any action is taken. It is for him and his Secretary to see to what extent staff aid is needed in the examination of this proposal, consultation with other Ministeries, etc. The order must again go as an order of the Government; it has to be experessed in that form but it is an order of the Minister or something which the Secretary says, "I know the Minister will agree with this, but I cannot consult him today and I won't hold it up". That much of internal delegation must be there. If a decision is taken with or without the Secretary's advice, which the Managing Director considers wrong, he should have the opportunity to speak to the Minister."

It was pointed out by another member that this problem was also connected with the autonomy of the enterprise. If the Board was autonomous, then the number of problems that went up to the Minister would be only on matters of policy and such questions would be very few in number.

Strong support to this view came from another who avered that "the refusal of the Government as a whole really to delegate authority to the enterprise has, I think, been largely responsible for the confusion that has arisen. Once you decide what specific powers are to be given to the Board and they are autonomous, then there will be very few instances of this conflict. At present

nobody knows where exactly he stands. If written directives are given, then the Board knows where it stands, and it can take decisions. The attempt has been to influence the Board that we would not agree to this, you better do this rather than saying that this is our policy, you follow this. There is a definite feeling among all the top people of enterprises that they are treated like inferior officers, who do not understand their business and that every Ministry thinks that they know their business better. The Chairman of a Corporation, the Managing Director of a Company and a number of people I have met told me the same. They all said they just can't work because every time some Ministry says you can't do this, you must consult us. So there is a general feeling amongst the top officials that they are being treated like despatch clerks or like boys to carry out certain orders from Delhi and not as people put in charge of things. And they say here we are senior officers with experience put in charge of important things and yet we are not given powers".

There was more discussion about the need to give the Board of Directors *de facto* autonomy and opinion was fairly strong about it. In fact, the remark by one participant "that is the one point on which all of us are agreed" truely reflected, the general trend of discussion. Some more remarks made by the participants about this point may be cited here. "To the extent to which decision-making is presumed to be with Government, there is really no need to have a separate Corporation. But where you are alluding to the creation of a Corporation, the presumption is that you want important decisions to be made by the Corporation".

"Flexibility really amounts to a desire for irresponsibility. If the Government cares to make the decisions, Government should stand responsible for them, as directly represented in the Parliament."

Another member avered "If you talk of autonomy, it must be real autonomy."

There was, however, a lone voice raised against this. He asked, "Autonomy of what? Autonomy for mismanaging the funds of the Republic ? Not, certainly not. Autonomy, only from the wooden-headed bureaucracy. That is all that is wanted."

Nevertheless, opinion in favour of greater freedom of action for the Board was still very strong. A member asked "How can any Government official appointed to the Board, while he is already holding charge of another appointment, operate in an individual capacity?"

Another member—a Government official: "I do not think he could". Some other member: "He has no judgement, except the judgement of his Department."

Still another member, "It is an issue of delegation. Government must be able to say that in respect of these matters, we must have a say, may be half-a-dozen matters. In the rest of the field, there must be complete autonomy to the Board.....They are good men. The real trouble is that they are not given the powers. They are told to look over their shoulders to the Secretary."

One member who was also a Director of a Government enterprise said "I do not think Government must interfere very often as far as day-to-day policy making activities of the Board are concerned because if that is done, then the enterprise will simply not run."

He said that there were examples of indirect Government interference. It happened that the official Chairman or Directors came to the Board with decisions already made by Government. In one or two such cases, the non-official members have had to take up the matter to ensure proper functioning of the Boards.

Strongly supporting this position one member said: "It is true that there are certain matters which necessarily require the approval of the Minister. But the official Director should be aware of beforehand of how the Minister is likely to react. If there is anything in executive autonomy, they must be a large group of matters in which the Minister's approval should not be required. If even in such matters the official Director goes to the Minister, it is definitely wrong—a withdrawal by the left hand of what is being given by the right hand."

CHAPTER IV

The Managing Director

The Statement of the Problem

Not less important than the composition of the Board is the selection of the Managing Director. This is so because on him will largely depend the fortunes of the enterprise. To that end he must possess the necessary qualities and be invested with appropriate authority. The Managing Director of a public enterprise is in a somewhat different position from that of a private enterprise.

Next to consider is the position of the Managing Director in relation to the Board of Directors. He is a member of the Board and at the same time an employee of the enterprise. He is usually appointed by the Government and is removable only by the Government. He is answerable through the Board and not directly, to the Government, since the Board is in charge of the enterprise.

The questions for consideration include:—

What should be the powers of the Managing Director (a) vis-a-vis the Board and (b) delegated by the Board.

A member said that the position of the Managing Director had become a very complicated one. "Sometimes a Managing Director would take the attitude that because he was made responsible for the enterprise by virtue of his appointment by the Government and not by or through the Board, and because his personal service conditions were prescribed by the Government, he was free of the Board. On the other hand and at the same time because the Board, of which he was the Managing Director, was responsible for the enterprise and the Board being autonomous he was not responsible to Government. And at the other extreme was and almost of the equal caricature, where the Managing Director felt that he was not really responsible at all, because to the extent he was not a creature of the Government, it was for the Government really to exercise the initiative and get the ultimate responsibility for seeing that the things were done, and to the extent of the Board, he was vested under Articles of Association with certain powers, it was for the Board to tell him what to do. They may be situations of extreme but they have actually arisen in practice. But in between these two extremes is a range of situations which arise, so that the problem is a practical one."

Emphasising the need for proper delegation of authority to the Managing Director another member said: "Surely, the question is, how much delegation you can do. But why do the State enterprises follow different policies in regard to delegation of powers? Why does the Hindustan Steel Ltd., prevent a Managing Director or General Manager or the man on the spot from appointing a person for over Rs. 800, and why does the Hindustan Shipyard Ltd., allow the Managing Director to appoint up to Rs. 3000? Now, the crux of problem is not precisely what should be the powers of the Managing Director; it is why is it that the powers of the Managing Director have been limited so remarkably in most of the Government undertakings. I cannot think of any Managing Director in any important private concern being stopped from appointing a man on Rs.800. In a big concern the question of appointing a man on Rs. 800 will never came before the Board. This inhibition, referring all things like "shall I appoint so and so on a salary of such and such" —takes up so much time that the Managing Director cannot get on with his job and the advantages having a centralised policy seems to be much more easily obtained by setting out the framework of the centralised policy within which a small discretion can be exercised. It is outrageous that a Managing Director is permitted to sanction non-recurring expenditure only up to Rs. 5000 within the budget allocation, because it means

that there is a vast amount of correspondence that is absolutely unnecessary."

Another member observed: "I think to separate all functions of the Managing Director is not difficult. In the first place the Board meets occasionally, periodically and in the second place the Board is a Committee. There are things on which daily decisions are required and there are certain things which can wait for a month for decision, and whatever has to be done by one man immediately must be delegated to the Managing Director as the person on the spot, in order to enable him to perform his functions." Quoting from the powers granted to the Managing Director of Sindri Fertilisers he said that an attempt had been made to define all types of petty expenses. "That is wrong in principle because a commercial enterprise or any large enterprise has such a variety of functions to perform, in such a variety of circumstances, that not even the most brilliant officer in the Finance Ministry can anticipate all the different aspects of expenditure. What do we find here? To write off losses up to Rs.100 in any case ! Whoever thought of this ? Very minor officials in State Governments can write off up to Rs.300 or Rs.400. Assuming that somebody breaks an apparatus in a laboratory the Managing Director will have to write to the Government to write off the amount from stock. Then we see, to sanction expenditure or Rs. 10000 non-recurring, subject to confirmation, in a factory of the size of Sindri is something very little. The principle is wrong. The way it has been done is wrong and the limit laid is much too low to permit of anybody's working."

The observation by another member was "If the Managing Director has to refer these various kinds of problems to the Board of Directors, he cannot feel responsible for running the organisation."

Another member said that the extent of delegation, would vary with the stage at which the project was. When the project is under construction the Managing Director would have to be given wider powers than he would normally be given when it has come into Commission. During the process of construction various decisions would have to be taken quickly if the schedule of progress is to be maintained; and this necessitates the vesting of greater discretionary powers in the Managing Director. "While it is true that there appears to be somewhat too detailed, and too limited delegation we must make a distinction between stages at which you are thinking of the delegation. Choose the right man and give him the right power having regard to the nature of the operations at the material times."

One member felt that delegation would depend not only upon the stage of the enterprise but also on the status of the Managing Director.

When one member said that if the Managing Director knew his job, he being on the spot and the Board met only infrequently, he would be able to command, to do everything reasonable and get the confirmation of the Board, he was told by another participant: "I think historically he is absolutely correct for the private sector. I think he is not correct so far as the public sector is concerned. I have talked to Managing Directors of State enterprises and they say they dare not take a really important decision which might be controversial. They dare not take that decision straight off and they are not short of personality."

However, it was pointed out by another member who had a great deal to do with the running of State enterprises that what actually happened was not that the Managing Directors felt they were not given wide powers, but that these powers were fettered by so many other restrictions like reference to the Ministry and so on.

Another member asked whether the Managing Director should be outside the appointment, control and answerability to the Board in any respect of his being the Managing Director or should he be altogether a creature of the Board. He said that the Managing Director was appointed by Government and not in consultation with the Board

and not certainly by or through the Board. His emoluments and terms and conditions of service were prescribed by the Government and there he was placed in charge as Managing Director appointed as such. He was then answerable to the Board on delegation given to him. Therefore, it was necessary to find an answer to this question.

Answering this point one member said "The question will arise not so much in regard to the initial appointment, but in regard to subsequent appointments. "What happens when the first Managing Director retires ? At the time when you are going to appoint the second Managing Director should he be appointed by the Government in consultation with the Board of Directors or independently ? I have no doubt, that he should be appointed in consultation with the Board of Directors. Secondly, with regard to this power of removal, there is a converse case. Once a Managing Director is appointed and he is doing his job pretty well, it is open to Government to transfer him without seeking the concurrence of the Board of Directors. We have known cases where when a Managing Director had just begun to get the hang of the business, he has been sent to foreign countries at the expense of the particular Company to get further training, and after return, he has been shifted elsewhere. So, I think before a Managing Director is treated like this by Government, this should be done only with the fullest concurrence of the Board of Directors. In short, once a Managing Director has been appointed for a period of time—it may be five years, four years or six years—he must be in the management of that particular company."

Another member was not very convinced of this. He put his case this way. "The point is that everybody wants to have an administrative position. But we have to see that those men who have to work under us are able to do the job according to our directions. Although it is true that the Government appoints a man, the Managing Director also knows that his success depends upon how he gets on with the Board as also how he runs his business. I think he is conscious of that."

He was also not in favour of large delegation of powers to the Managing Director. He questioned the statement made by another member that in the private sector there was large delegation of powers to the Managing Director. Even if this was true it was for quite different reasons. Often the Managing Agent himself was the Managing Director, or else he appointed his own 'yes man' as his Managing Director. The Managing Agent had full powers and therefore, there was no question of limitation." "What I wish to point out is that the contrast which you bring in between extreme powers being given in the private sector to the Managing Director and very limited powers given here, cannot be understood except under different conditions."

This was agreed to by another member who said: "some of the best private companies have laid down "Do not give power to the Managing Director." They say, with the approval of the Board, and then it always comes to the Board. I have seen in respect of some quite good Companies, of which I happened to be a Director, of Rs. 350 appointments coming up to the Board for approval, again and again, and it was the Managing Director who selected them or some Committee which selected them. But they did come upto the Board. And I see no reason for disapproving all that. If you leave it entirely to the Managing Director, well there is a possibility of mischief, but if once it comes to the Board for approval, all further discussion is eliminated."

CHAPTER V

The Financial Adviser

The Statement of the Problem

The position of the Financial Adviser has been subject to a great deal of discussion, particularly his relationship with the Managing Director. The controversy has largely centred on the question whether the Financial Adviser should be given a right to go to authorities higher than the Managing Director in case of disagreement between the two. It is contended on the one hand that since the Financial Adviser is an expert, whenever his advice is found inacceptable to the Managing Director who is not an expert, the former should have a right to place the matter before the Board, and if need be the Government. On the other hand, it is pointed out that in so far as it is not the Financial Adviser on whom rests the responsibility to run the enterprise according to the wishes of the Board, the Managing Director who has that responsibility must possess the power to over-rule the advice of the Financial Adviser.

As a compromise it has been suggested that the Financial Adviser should be on the Board. Another view is that although th Financial Adviser should not be given the right to go over the Managing Director, rules must be so framed as to make it very difficult for the Managing Director to turn down the advice of the Financial Adviser except when absolutely necessary.

The question to be considered is:

What should be the exact role of the Financial Adviser and his powers vis-a-vis the Managing Director ?

The Chairman explained how in practice the trouble arose. He said Obviously the Managing Director should have financial advice. After all, he does or should exercise large powers even if they are limited powers. That such financial advice should be advice based on independent judgment need not be over-emphasised. Otherwise it is not much of advice. It is tendered by an official who is a servant of the Company and obviously subordinate to the Managing Director as are all servants of the Company because the responsibility to the Board of Directors is formally discharged by the Managing Director on behalf of the Company. Now, the Financial Adviser may tender his advice to the Managing Director on a matter which comes up and on which he may disagree. The Financial Adviser would then be either in the position of keeping quiet or trying to enforce his advice, being ensured entry into the forum, where the matter will be adjudged by the Board for decision. The question is : Should the Managing Director have the power to over-rule such independent advice which may go against his own judgment or should the Financial Adviser be allowed entry into the Board to represent his case or be given a seat on the Board of Directors so that he is there always or should there be a compulsion on the Managing Director to bring all such disputed cases to the Board."

One member expressed the view that once the Financial Adviser had tendered his advice, his job was over. Whether his advice went against the judgment of the Managing Director should be brought to the notice of the Board was a matter for the Managing Director himself to decide. "In an important matter, if I am an honest Managing Director, I would certainly bring it to the notice of the Board and say "in this particular case this was the advice which I do not propose to accept" or, if I am dishonest or if it is not an important matter, I am not bringing it to the notice of the Board."

Even this view that the Managing Director should bring to the notice of the Board any important point of disagreement with his Financial Adviser was strongly contested by three others, one of whom said: "If the Managing

Director as well as the Financial Adviser are both on the Board, automatically they have access to the Board and their respective problems and views will be placed before the Board. I think this question can arise only where the Managing Director is on the Board while the Financial Adviser is not and is subordinate to the General Manager on the Managing Director. In such a case, I think you cut across all ideas and concepts of unity of command, if you allow the Financial Adviser to insist that his views must necessarily be placed before the Board."

Still another member asked: "Is he an adviser to the Managing Director or to the Board of Directors ? If organizationally he is under the Managing Director, then it is the decision of the Managing Director that counts and you would be cutting across all principles of administration if you allow him (the Financial Adviser) entry into the Board.

The Chairman asked the member specifically whether for this purpose should the Financial Adviser be subject to the Managing Director's over-ruling and the member replied "If you allow the Financial Adviser to present his differences of opinion with the Managing Director to the Board then the accountability of the Managing Director is reduced and in fact you would have two Managing Directors. The Financial Adviser would assume the role of giving sanctions to the Managing Director." Another member added "There will be two bosses in the firm."

Strongly supporting this a third member made the following remarks: "Either you appoint a Managing Director in whom you have confidence, or do not appoint anybody. If you appoint a man with administrative ability in whom you have confidence, then quite obviously he is the person and he will of his own accord say,well this is such and such.What is this for the Managing Director when you say "When you disagree from so and so, then you must come and tell us." Is this the way to run any thing ?"

In spite of this strong opinion, as a whole, the members felt that while the Financial Adviser should not have the right to take the matter to the Board, there should be a second point of reference. One of them said: "I would expect a rule to be there which will ensure that in any matter of major importance, let us say schemes involving two lakhs or three lakhs, and on which there has been a difference of opinion will be brought to the Board. The Board should insist by a permanent standing order that in certain classes of matters if the Financial Adviser's advice is contrary to what the Managing Director proposes, the fact should be brought to the Board's notice."

This was agreeable to one more participant. "The ideal solution is that the Board should insist that in proposals with financial bearing, the Managing Director should mention that the Financial Adviser has been consulted but he has not agreed. In that case, if the Board so desired, may call for further explanation or even send for the Financial Adviser. But the Financial Adviser as such should not be given the right to go to the Board over the head of the Managing Director. I know situations where this has happened and the Financial Advisers are developing a tendency to arrogate to themselves almost equal rights with the Managing Director without corresponding responsibility. I say responsibility because if a proposal does not come through and the work is not executed the man to be blamed is really the Managing Director and not the Financial Adviser, but the Financial Adviser wants to have the right of vote and at the same time not to answer to the Board."

"That would meet the point to a large extent" said another participant, "What is really intended is that the Board should be able to know why it is that the Managing Director was not able to accept the advice of the Financial Adviser. It does not in any way diminish the responsibility and the rights of the Managing Director. There is no authority which is broken at all by bringing this point of issue to the Board and therefore, I would agree that the Board should

normally: say that where there is a difference between the Managing Director and the Financial Adviser the former will be completely within his rights to take a decision but these matters must be brought to the notice of the Board."

This was the burden of the argument of one more who said that the highest authority wherever placed in any organisation must at least have an opportunity to know. The main things on which the Managing Director differed from the Financial Adviser, should be brought to the notice of the Board.

It was demanded by another member that in no case should the Financial Adviser have anything to do with the Government directly.

One member: "It would not in any case go beyond the Board. The Board should have a chance to know and that is all."

Another member "It is laughable to ask the Financial Adviser to send quarterly or half-yearly reports."

"There should be no line of communication between the Financial Adviser and the Finance Ministry except through the Managing Director," commented one more member.

A member tried to sum up by saying "The broad principle of the fact is, firstly, there should be a second point of reference where there is a disagreement and secondly there should be a compulsion to report the disagreement to the Board on each occasion."

CHAPTER VI

Terms of Employment in State Enterprises

The Statement of the Problem

For the successful working of State enterprises it is necessary that qualified persons are employed in them. But the availability of qualified persons depends upon the terms the enterprises are prepared to offer. At present there is no uniformity in the terms offered by different enterprises. It has also been found that because of this disparity in the terms offered people often leave one enterprise to join another for better prospects. This works to the disadvantage of the enterprise which gave them the training.

Another point to be considered is the competition from the private sector where the terms offered are far more lucrative. To counteract this competition it has been suggested by some that Government should fix a ceiling on salaries paid in the private sector.

The points for discussion include:

(*i*) Should there be a certain degree of uniformity in the terms and conditions of service for employment in public enterprises, if so to what extent?

(*ii*) What relation should there be between and terms offered between the public and private sectors?

At the very outset, a member questioned the basic statement made in the Working Paper. He said that it was his own experience that personnel from the private sector were being taken away by the public enterprises. Explaining his experience he said: "We received a circular from the Government saying that their departments and State enterprises are being raided upon by the private enterprises and many technicians are deserting Government offices. We made certain enquiries and we received same complaints from private enterprises saying—and they gave the names and types of officers—that the people were going over to Government jobs, and the statement was thus quite contrary."

Another member observed: "It is not merely a matter of total emoluments. People also compare the other conditions of service. How far is he likely to be recognised on his own merit ? He does not only consider the point of money that he is going to get immediately. Nobody makes a decision on that basis. There are many factors: is there a place where I can educate my children and so on. Here, it is wrong to think that decisions are made on the simple matter of emoluments. One of the most important factors is whether merit would be recognised; whether promotions would come by, whether it would go to his proved advantage. "Now, what I have heard from some of my colleagues who have come over from public enterprises is this: "Unless you have a brother or somebody or other in Delhi, you never go up." So, what I think the public enterprises has to do to retain its men is not so much to compete in regard to emoluments as to see that fairness is done within the organisation without reference to our "mabaps in Delhi."

Fully endorsing this stand another one said: "The basic assumption that we take away people from public enterprises, I think, cannot be supported, because it is not a question of money. It is a question of totality of considerations, and I can say this (quite apart from the practice), theoretically I would say in our country increasingly a man would choose a public career, because in the present state of developments which are anticipated, there is going to be a shortage of everything, and in a country where there is likely to be growing shortage there shall be no competition. And if a man, if he wants to get any goods, electric power, a telephone connection or medical facilities and so on, believe me,

no private person can really get on well. In fact, I would say on the basis of comparison that unless a person gets twice the salary which he could get in Government service, he would find himself in a very difficult situation in a private enterprise. I think anybody living in Delhi knows that. If a fellow falls ill, he has to mortgage his whole year's salary in order to pay his medical expenses. Now, a private organisation does not give half the facilities which a public organisation gives. I am not referring to the facilities, which the private organisations now give themselves. I am talking of the public amenities which should be provided for all citizens. Now they are providing only for people in the public sector and that is why I am saying that the approach of this question is itself quite interesting. I think the real point that has to be decided is this: in any economy like the Government's planned economy, where there is a private sector, how to avoid unnecessary drawing away of personnel from one into another ? Put it this way and not simply say that these drawings are made by the private sector at the expense of the public sector."

Still another member said that it was not a question of competition. In the initial stages, it might be that a young man prefers a job in a private concern because of the immediate larger emoluments. Even this was disputed by two members who felt that even at that stage now-a-days private industry got only what was left over from the I.A.S. Nevertheless, the member thought that in the beginning a young man would prefer appointment in a private concern. However, this was not so later on. "When you come to the higher levels of experienced managerial personnel, there it is really a question of total shortage. We are expanding so much and creating a demand for experienced people, and to meet the demand there are very few who can be attracted away from the private sector except at the stage when they come up to the number one or two or three places where they are being baulked of promotion because of family and other considerations, where they have a certain command of savings to fall back upon and they are prepared even to work on a smaller salary in the public sector, because they expect to get there the opportunity for development, a sort of authority and promotion and recognition. So you have a pattern of less or more attractiveness at different levels."

On the other hand, it was pointed out by another member that "managerial persons in private concerns can do very well by way of bonuses earned on profits and by way of all sorts of extra facilities which Government personnel do not get, and at that level people might be tempted to retire early and go to private enterprise, and so on, and perhaps at that level it might be found worthwhile as long as you have a large private sector to provide some equivalent facilities in the public sector."

One member also pointed out that the problem was connected with the building up of a second level of defence in organisation. At present it was not done and so there was constant shortage of people. So, if there was a proper method of selection and training with reasonable promotion facilities, the question would become much more easy to be tackled.

Disagreeing with all the above views a member declared: "If equal pay for equal work is what we all desire, I would suggest that the Companies Act should be amended and all the jobs in the private sector should be categorised and scales of wages should be fixed. Ownership may for the time being remain private. You consider it, and then much of the patronage will go. I will tell you precisely, what I mean, even at the cost of being misunderstood. In the private sector, when the manager is of a particular province or a particular community, from top to bottom, you just consider what sort of people there will be. If millowner is from Community X, the wholesaler the same thing, the retailer same thing and so on. Is it consistent with the national outlook ? Instead of nationalising straightaway, why not begin with nationalising the management and just as in the sphere of law, you prescribe the scale of fee and nobody

can charge more. One can charge less. Similarly you say: all right, the Managing Director is one category whether in the public sector or in the private sector, of a type of factory, in terms of production, or number of employees, and then you will find that there will be fair relativity of wages in government employment and under private enterprise. Today you take a Railway gangman; he gets a minimum of Rs. 79 and just by the side, a primary school teacher in the village gets Rs. 35 plus Rs. 10 and this man is obviously more qualified. Is this any fairness ? Is there any relativity between the earnings of both ? So, if you follow some such thing, categorise the jobs, prescribe the scales, and well, if you like, you can nationalise management without nationalising the ownership."

CHAPTER VII

Workers' Participation in the Management of State Enterprises

The Statement of the Problem

This is another topic which, of late, has received much attention. The question has to be examined not merely from the angle of efficiency but more from the angle of the ultimate objective of society. In India the objective is the establishment of a socialist pattern which in its Indian interpretation involves worker's participation. The concept has been applied in different ways in different countries. In some it has been used only as a means of consultation, in some others its application has been restricted to welfare matters, and yet in some others to management from the top to bottom.

The points to be considered include:

(*i*) What is the scope of workers' participation ?

(*ii*) The machinery for putting it into effect.

(*iii*) Its implementation in India.

Elaborating the points raised in the Working Paper further, the Chairman said: "We should see these questions as set out in our present circumstances. As a little background in State enterprises, I may say that we have been told that it is now a definite article of State policy that worker's participation shall be introduced and shall be made to operate. On the other hand and at the same time, when the proposition has been put to managements, at one extreme has been a Managing Director of quite a large concern who said, "Certainly it is a very good idea, but will you please find some other Managing Director first ?" It is something which we are committed to. It is a very typical problem, and from the angle of State enterprises, I am not sure that we know how to set about it."

The discussion mainly centred on two aspects of the question viz., the method of participation and the extent of functions to be exercised by such joint machinery. One member made the following suggestion: "I would like to suggest that the interests represented on the Board should not be the employees of that concern specifically. It should be ruled out. I believe in workers' association with management in an advisory basis. I think it would be a mistake from that point of view to mix up issues and to put or try to put an employees' representative on the Board of Management or Directors. But what I am thinking of is someone with the broad experience of the labour movement and broadly a trade union or true labour point of view. In other words, I would look outside that particular industry for an experienced and mature exponent of an enlightened approach to labour and to trade unions and will put him in as representing the labour interest without representing the employees of that particular concern."

This was agreeable to another member who had some experience in actual labour association with management. "I thing in today's context it is very necessary that labour should be represented. I would agree that it is preferable not to have an interested labour from the company itself, but from elsewhere."

Supporting this viewpoint it was pointed out by one that for maintenance of discipline, outside representation would be better. "It appears to me that if under the Board of Directors, you have a General Manager or a Managing Director, I am afraid, it creates difficulties to command discipline which will be seriously undermined if one of his employees is elevated, by election or nomination, to a superior place. What we really want is the labour point of view on the Board. And if you can get a person with sufficient detachment and having a sufficient understanding of the labour point of view,

by all means get him. But to elevate one person from below above the General Manager and put him on the Board while he remains a worker is to undermine discipline."

"I agree with this view" observed another member "It is not in the interest of workers employed in that Company to be associated with the management decisions for various reasons. I do not know if it is possible to have a man generally familiar, in a general way with the labour movement. I think it is possible to find people even in this country. It is certainly possible to find in other countries. If you can get a manlike that, choose him on purely individual basis, but not as elected representative. It would be a mistake to do so." He also quoted from the book "Overhead Costs" by W. Arthur Lewis to prove that workers' participation must begin not at the centre but at the priphery.

There was the opposite view expressed also, i.e, the labour representatives should be from the firm itself. One member said: "I think we are placing too much burden on a few top leaders of the labour movement. We find that everywhere, in almost all the Government concerns, only two or three of them are there. So I would suggest that let the workers of that undertaking choose a representative. I think that would be a much more practical solution."

Another member thought that labourers from the enterprise could be put on the Board of Management and not on the Board of Directors because the firm had to deal with the day-to-day working of the enterprise.

Another view put forward was the following:—

"If you take somebody who has been working in the labour field, there are two or three competing trade union organisations. You take in one from one of these, generally from an organisation which the party in power favours. That immediately brings in the problem of his trying to influence the choice of the union if there are competing unions in the concern, which union should be recognised, etc. Immediately the Director representing labour would have a say in it and his particular organisation is bound to be favoured. So, if at all people are to be brought in, the proper procedure would be that they should not continue in the particular organisation. Then we can have representatives of labour generally and not of a particular organisation. I may point out that in the Posts and Telegraph workshop, a employee is represented on the Board of Management. I had a talk with this representative, and he at least said that there was no difficulty about his being able to function, although he was a member of the Union, but was not a representative of the Union, so that he helped the management by pointing out what labour reaction to a particular proposal would be."

Another member observed that it was not necessary to have a trade unionist. Sometimes a trade unionist on labour-management participation Boards are rejected by their own members. It would be sufficient if the person on the Committee would be one who could have a 'point of view' that takes into consideration the workers well-being.

One member took the following line. He said if we were to follow that British practice there would be no workers' representative. On the other hand, if we were to follow the German pattern then the Board would have fifty percent labour representation. The whole thing depended upon the maturity of the union movement in the country. Therefore, the best method would be to try and experiment with more than one method. "We might appoint in some places persons with labour background, in some places as managers, in some places by election and still in some places by nomination. Only in the light of experience we will know which particular method would be suited to India. But I would very much like that both in the public sector and the private sector there should be considerable experimentation."

This view seemed to find large measure of agreement among the members.

At this stage a member suggested that it was also necessary to consider in what matters labour should be associated. He said that some beginning should be made in associating labour with discipline matters. Where discipline had to be exercised, some participation or delegation of responsibility to the workers should be definitely tried out. He had no doubt that in welfare matter they should have a large share of responsibility.

A member asked: "Suppose some worker does something wrong or misbehaves, do you suggest that this complaint should be investigated by a joint board consisting of representatives of management and of labour ?"

The reply was "I would go in some cases even further. If you have the atmosphere, it will be entirely a labour board. That should be one of the items in regard to which you may try. However, I will follow up by saying that where the experiment in regard to discipline is proposed to be tried to the maximum possible extent, their participation and responsibility in the beneficial aspects of management should already have been established."

In this connection a member asked whether in welfare matters, should there be mere consultation only or should the welfare fund be collected and placed at the disposal of the workers ? For instance a hospital. Should it be run hundred percent by the workers or should the management also be associated with it ?

At this a member expressed the following opinion: "In these matters they are not experts. But their guidance and advice is necessary so that they should feel that they have something to do with it. It may be a little more than consultation. Consultation will be, of course, there, but there will be some sort of a standing committee or managing committee to look after the various aspects of welfare. On those standing committees their representatives must be there. They must be charged with the responsibility of taking decisions, even in the limited spheres, so that it must not be the employer alone to be blamed. The management can say, well this is a collective decision."

Another member went a little further. He said. "Works Committees should go into these matters. The matters to be dealt with by these committees should include fixation of shifts, method of payment of wages, settlement of grievances relating to terms and conditions of employment, suggestion for improvement in methods of work, etc."

Still another member thought that workers should be given some voice in all aspects of management. However, a great deal of experimentation was needed even in the formation of these committees.

Two more members lent their support to this. One of them said: "If we develop the machinery for consultation and then proceed to consider the machinery for making joint decision we can make progress. In the works committees the general rule is to have equality of representation of management and labour. Representatives of management and labour may take the chair by rotation. In some factories it is invariably the representative of the management who takes the chair. In many factories that I know of to a large extent there is freedom of voting and if eventually a substantial majority decided that a certain thing is desirable with regard to how, let us say, the canteen should be run or what price should be charged for a cup of tea, it is not very easy for management to disagree with that. I think it is possible to go on working like that even in regard to questions of safety. And if there is willingness, you will find there are many spheres in which it is possible and useful to associate labour with management. It is a question of going from consultation to decision making according to the progress made."

Supporting this viewpoint one member made the following observation. "I think the general approach should be to start from welfare and progress as much as possible. Starting from welfare,

joint-consultation can go into operational improvements and so forth."

However, some members asked for caution in implementing a scheme of worker participation. One of them observed "In one of the cases I have observed that these experiments have been somewhat vitiated by the fact that Union leaders have somewhat misused the powers given to them. They get things done for their friends and favourites. Now the question is asked why the works committees fail. Unless we can get answer to that question, this experiment is also in danger of failing. Sometimes management are averse to giving a voice to workers. There are other cases where the labour is equally responsible for rendering ineffective the functioning of works committees. There is certainly a fear of jealousy of the works committees on the part of trade Union functionaries, particularly outsiders. The Trade Unions Act unfortunately allows outsiders to be functionaries on the executive committees of the trade unions. But on the works committees, the outsider has no place. The outsider, who is a functionary on the Trade Union executive committee looks upon the works committee as a danger to him because if the works committee and the management get on extremely well, he is out of business. So his job is to see that the works committees do not function. Now, this is a natural fear and we must meet it. The way to meet it is to say that the works committees and workers' participation are and should be distinct from the purposes of collective bargaining, where the works committees have gone wrong is that their functions spill over into what is the legitimate domain of trade unions. It is possible to draw a line between the functioning of the works committees—joint consultation or worker's participation on the one hand—and union management relation on the other.

The point I come to, therefore, is this. Many State enterprises are accepting the idea of trade unions nominating workers on the joint councils. I think that is wrong and this experiment will fail unless this practice is rectified. Trade union nominees have no place on joint councils. First of all, most trade unions are not representative in our country. To give them a monopoly of representation on the joint council is to disfranchise a number of workers. The principle of election by departments or categories is the only one on which joint councils should be constituted. Thereby you create a domestic forum of the concern and its employees. This can function provided you do not encroach upon the sphere of trade union—management negotiations and collective bargaining. I would stress those two points: a clear line of demarcation of functions; and secondly election by workers department-wise or category-wise and no nomination by trade unions."

Opposing the suggestion for election by each department another member observed "I am not sure whether a direct election is desirable. We have to have the Unions in this with us. If we seek on the shop floor to have direct elections, even under the joint management of the Unions and the management and a number of people who are not Union members or perhaps are even averse to this particular Union, are elected these shop floor committees, we shall at once lose favour with the Union. I think the advantage of having even a minority Union which is recognised with us in the job are far more than and must outweigh the theoretical advantages of election at shop floors at various levels. Let us get this working. If we have a large number of shop committees, then *ipso facto* more and more representatives will get elected and Union nominations will decrease. The Unions will not have so many competent people whom they can nominate in all shop floor committees. Then they will be forced to nominate more and more people who are not members and increase participation. Even a minority Union at this stage, if it is a recognised Union, will, I feel be more advantageous."

Emphasising the importance of developing proper traditions in this regard one member said: "Unless you have a tradition of participation, say between the

Managing Director in relation to his departmental heads, and of departmental heads in relation to their supervisors, one cannot go to the last stage and have workers participation. This would mean participation between the top and the bottom with the intermediary levels left out of participation and this cannot work. I, therefore, think that unless you have a tradition of participation and consultation in the whole organisation, this kind of things will not work and one reason why joint committees do not work is because of this tradition not being a part of industrial atmosphere."

Endorsing this one member remarked: "In management, there is not one level; there are many levels. And unless those levels come to participate in management it would not create conditions for the success of workers' participation. In considering the participation of workers in management, the first condition is the participation of management in management. Proceeding from that, when we talk about workers' participation in management we have to decide at what level of management and in what subjects do we want such participation. Unless we are more clear about these things, we will have an experiment which has no fixity behind it and it is bound to fail. If you want workers' participation in top management, then the elective principle is dangerous. But if you want workers' participation in management at the lower levels in regard to subjects that immediately affect their own working conditions, then the only way in which it can work is the elective principle, more so because of the jealousy of the trade unions within the organisation. If you follow the elective principle and at the same time have recognised Trade Unions, you have to come to agreement with the Union as to the division of subjects between the Unions and the internal elected body. The normal division is that the Union concerns itself with the major questions of wages etc. while the internal body concerns itself with the other problems in a factory such as ventilation, safety, welfare, productivity, etc.

The speaker was put this question by the Chairman: "In a coal-mine, at present, the safety of the mine and the workers therein is in the hands of the management who are responsible along two lines—the statutory line and the line of authority on which they are working. Is it a part of your suggestion that for safety measures in the mines, the workers in the mines should actively participate in the decision taken to design these methods, because that would influence productivity and therefore the whole commercial working of the mine ? If so, it is coming a long way from the limited consultative association for welfare."

The previous speaker replied: "Yes I think so." The need to give the workers sufficient information was also stressed by members. One of them said: "One defect in management, we must admit, is unwillingness to part with information. There will be no consultation; let alone any decision-making if management is not prepared to part with information. The first step is for management to decide as to how much of information they will part with and to what levels." The member said that the important thing was that there should be willingness to call for the suggestions of people below and to give them an opportunity to present their case. "Passing of information downwards and a willingness to receive suggestions upwards and to discuss these things are necessary, because, after all, management means policy-making and policy-making is not done in a vacuum. So far, managers have been apt to think that they know everything and that they do not have to look outside for information and ideas. Workers' participation in management, to my mind, means that this claim of management to monopoly of wisdom is abandoned and it is admitted that all human beings having a fair amount of experience, may have something important to contribute and that management is prepared to give labour relevant information and receive back from them their suggestions. Further certain amount of mobility from bottom to the top is one of the pre-requisites for the success of an enterprise. If the society stratified,

divided into rigid categories, and if a worker cannot go from one into the other, you have built-in tensions which can never be overcome. But if you can make the organisation flexible and take steps to promote, to allow progress of every one up to a certain stage, of deserving workers to the lower levels of management, then you can get a healthy environment which will help in bringing about the integration of management and labour into a community with a common objective."

Another point mentioned was the need to avoid too much centralised participation. When it was highly centralised it did not appeal to the workers because the ordinary worker did not feel that he was being consulted.

One member pointed out that workers' participation would not be quite successful if there was not quick decision making. He quoted from a report made on the subject in the United Kingdom. He read out the following extract from the report "At the same time, consultation presented the Unions with new tasks. It failed to give the workers in most nationalised industries that sense of participation in the general affairs of the enterprise which was aimed at. The main difficulties have been found to exist in prolonged delays in the solution of problems discussed. A tendency exists on the part of workers' representatives, especially at low levels, to limit consultation to matters of welfare and safety, while the employers' point of view is overlooked or ignored. There are undue delays, mainly as a result of high degree of centralisation in the administration of the industries.

"Workers' participation is likely to be most meaningful on the lowest levels, close to every day life of the workers. But when few or no actual decisions can follow from consultation, because those involved lack authority, a sense of futility and frustration becomes unavoidable. Tendency to centralise collective bargaining and to obtain uniform treatment from all employees runs counter to the requirements of effective labour participation in management. In practice, the subject matter of consultation tends to be limited, most directly related to workers' immediate interests with little emphasis on questions of efficiency. Finally, there is obvious reluctance of managers grown up in a different atmosphere to accept the idea of sitting down as equals with the trade union members of joint consultative committees and make adjustments in their relations. The counterpart of this exists on the Union side also.

"It is now generally acknowledged that nationalisation has not brought about a radical change in workers morale. Although the workers are now working for the public interest rather than private profit, the growth of production has depended on investments rather than on workers' enthusiasm."

PART TWO

CHAPTER VIII

Public Corporations

Introduction

This Paper on Public Corporations* in India deals with the following nine Corporations in the sphere of the Union Government.*

1. Damodar Valley Corporation (1948)
2. Rehabilitation Finance Administration (1948)
3. Employees' State Insurance Corporation (1948)
4. Industrial Finance Corporation (1948)
5. Indian Airlines Corporation (1953)
6. Air-India International (1953)
7. State Bank of India (1955)
8. Life Insurance Corporation (1956)
9. Central Warehousing Corporation (1956).

An analysis is made in the following pages of the provisions of the Acts setting them up in respect of their constitution, area boards and branches, finances, accounts and audit, relations with Government, labour and public relations and annual reports.

I. CONSTITUTION

Damodar Valley Corporation

Set up under the Damodar Valley Corporation Act, 1948, this Corporation has a three-member board of directors, of whom one is designated by the Central Government as the Chairman. All the three are appointed by the Government of India, after consultation with the two State Governments connected with the Corporation viz., Bihar and West Bengal. The terms and conditions of service of the Chairman and members are in accordance with the rules framed by the Central Government under section 59 of the Act. The Act also specifies two disqualifications to membership of the Corporation. These are: (*a*) membership of Parliament or of any State Legislature and (*b*) direct or indirect interest in any subsisting contract made with, or in any work being done, for the Corporation except as a shareholder (other than a director) in an incorporated company, provided that where he is a shareholder, he shall disclose to the Government the nature and extent of shares held by him in such Company. No decision of the Board shall become invalid because of any defect in its constitution or any vacancy in it.

Section 6 of the Act provides for the appointment of a Secretary and a Financial Adviser, both of whom are to be appointed and removed only by the Central Government. The former is the chief executive officer of the Corporation. All other officers and servants of the D.V.C. are appointed by the Corporation itself. With regard to pay and other conditions of service of the Secretary and Financial Adviser, they are regulated by the rules made by the Central Government. The terms and conditions of services of other officers and servants are fixed on the basis of the Regulations made by the Corporation under section 6 of the Act. The Act also disqualifies any person to be an officer or servant of the Corporation if he has directly or indirectly by himself or by his partner or agent, any share or interest in any contract, by or on

* In this paper the term Corporation is used in its strict technical sense i.e. a Corporation established by an Act of Parliament. There are other Government enterprises which are also called Corporations, such as the National Coal Development Corporation (P) Ltd., the State Trading Corporation (P) Ltd. etc; but these are not strictly Corporations as they are companies registered under the Companies Act.

* The Reserve Bank of India, although a Corporation governed by a similar Act of Parliament, is not dealt with as the State Bank of India has been included.

behalf of the Corporation, or in any employment under, by or on behalf of the Corporation. Section 56 makes all members, officers and other servants of the Corporation public servants within the meaning of Section 21 of the Indian Penal Code when acting or purporting to act on behalf of the Corporation.

Rehabilitation Finance Administration

It was set up according to the provisions of the Rehabilitation Finance Administration Act, 1948. The Administration, with its headquarters in Delhi, has nine members of whom one is the Chairman and is called the Chief Administrator. Of the rest, four are officials and the other four non-officials. They are appointed by the Government of India and the other four are non-officials nominated by the same Government. The officials hold office during the pleasure of the Central Government, while the term of office of the non-official members is two years. They are, however, eligible for renomination. A nominated member may resign his membership by writing to the Central Government to that effect. A vacancy in the Administration of a nominated member is to be filled by nomination by the Central Government, but the nominated person holds office only during the remainder of the term of the member in whose place he has been nominated. No action of the Administration shall be called in question merely on the ground of any defect in its constitution or a vacancy in it. No member shall have any interest, direct or indirect, in any business, industry or concern to which any assistance under Section 12 (loans, discounting bills etc. and guaranteeing losses) has been given or is to be given. If any member acquires such interest at any time during the continuance of such assistance, he shall immediately disclose it to the Administration and shall either resign his membership or dispose of his interest in such manner and within such time as he may be directed by it.

The Chief Administrator is a whole-time servant of the Administration and his remuneration and other items and conditions are determined by the Government of India. Section 10 gives the Administration power to appoint a Deputy Chief Administrator and other officers and servants. However, the manner of their appointment, fixation of salary and allowances and other conditions of service are subject to the previous approval of the Central Government.

Employees' State Insurance Corporation

Established in accordance with the Employees' State Insurance Act, 1948, This Corporation consists of —

(*a*) the Central Minister of Labour, Chairman, ex-officio;

(*b*) the Central Minister for Health, Vice-Chairman, ex-officio;

(*c*) not more than five persons to be nominated by the Central Government of whom at least three shall be officials of the Central Government;

(*d*) one person each representing each of the States in which the Act is in force to be nominated by the State Government concerned.

(*e*) One person to be nominated by the Central Government to represent the Central territories;

(*f*) five persons representing employers nominated by the Central Government in consultation with such organisations of employers as may be recognised for the purpose by the Central Government;

(*g*) five persons representing employees to be nominated by the Central Government in consultation with such organisations of employees as may be recognised for the purpose by the Central Government;

(*h*) two persons representing the medical profession to be nominated by the Central Government in consultation with such organisation of medical practitioners as may be recognised for this purpose by the Central Government; and

(*i*) two persons to be elected by Parliament.

The term of office of the members except those mentioned in (*a*), (*b*), (*c*), (*d*) and (*e*) is four years, commencing from the date on which their election or nomination is notified. However, even after the expiry of this period of four years, a member continues to hold office until the nomination or election of his successor is notified. All others, except those who are ex-officio members, hold office during the pleasure of the Government nominating them. An outgoing member is eligible for re-election or renomination. All orders and decisions of the Corporation are authenticated by the signature of the Chairman or some other members authorised by the Corporation in this behalf and all other instruments issued by the Corporation shall be authenticated by the signature of such member or officer as may be authorised by it.

By Section 8 of the Act, a Standing Committee of the Corporation, constituted from among its members, is created. It consists of :—

(*a*) a Chairman nominated by the Government

(*b*) three members of the Corporation being officials of the Central Government and nominated by it;

(*c*) three members of the Corporation representing three State Governments thereon as the Central Government may, by notification in the official Gazette, specify from time to time; and

(*d*) six members of the Corporation elected as follows —

1. two members from among the members of the Corporation representing employers;
2. two members of the Corporation representing employees;
3. one member of the Corporation representing the medical profession; and
4. one member of the Corporation elected by Parliament.

The term of office of the members of the Standing Committee except these referred in (*a*) (*b*), and (*c*) is two years. And even after the expiry of that period a member continues to hold office till his successor is nominated or elected, as the case may be. When a member ceases to be a member of the Corporation, he loses, *ipso facto*, his membership of the Standing Committee too. Members referred to in (*a*), (*b*) and (*c*) hold office during the pleasure of the Government of India. An outgoing member of the Standing Committee is eligible for re-election or re-nomination. A member may resign by giving notice to that effect in writing to the Central Government.

The Act also constitutes a Medical Benefit Council consisting of :—

(*a*) the Director General of Health Services, Chairman, ex-officio;

(*b*) a Deputy Director-General, Health Services, to be nominated by the Central Government;

(*c*) the Medical Commissioner of the Corporation, ex-officio;

(*d*) one member each representing each State to be nominated by the State Government;

(*e*) three persons representing employers, selected by the Central Government after consultation with recognised organisations of employers;

(*f*) three persons representing employees, selected after consultation with recognised organisations of employees; and

(*g*) three members representing the medical profession, of whom one shall be a woman selected by the Central Government after consultation with recognised organisations of medical practitioners.

The term of office of members except those referred to in (*a*), (*b*), (*c*) and (*d*) is four years, others except the ex-officio members hold office only during the pleasure of the Government nominating them. An outgoing member of the Medical Benefit Council is eligible for re-nomination. A member of the Council

may resign by giving notice to that effect in writing.

According to section 12, a member of the Corporation, the Standing Committee or the Medical Benefit Council ceases to be a member if he fails to attend three consecutive meetings. However, subject to the rules made by the Central Government in this behalf, the Corporation or the two Councils may restore him to membership. The Act mentions certain disqualifications to membership of any of these three bodies viz:

(*a*) if he is declared to be of unsound mind by a competent Court;

(*b*) if he is an undischarged insolvent;

(*c*) if he has directly or indirectly, by himself or by his partner any interest in a subsisting contract with, or any work being done for the Corporation as a medical practitioner or as a shareholder (not a director) of a Company; and

(*d*) conviction for an offence involving moral turpitude.

Casual vacancies in the Corporation or the two Councils are to be filled by nomination or election as the case may be, such new persons holding office only during the remainder of the term of the members whose place they have taken. Members of the three bodies receive such fees and allowance as may from time to time be prescribed.

The principal officers of the Corporation, all of whom are appointed by the Central Government in consultation with the Corporation are (1) a Director-General of Employees' State Insurance (2) an Insurance Commissioner (3) a Medical Commissioner (4) a Chief Accounts Officer and (5) an Actuary. The Director-General is the chief executive officer of the Corporation. All of them are full-time officers and are prohibited by the Act from undertaking any work unconnected with their office without the sanction of the Central Government. Their term of office is not to exceed five years, as may be specified in the appointment order, but they are eligible for re-appointment. Their salaries and allowances are also prescribed by the Government. All the disqualifications mentioned in the Act in relation to members of the Corporation and the Council are applicable to these principal officers also. The Corporation has power to create new posts, but the Central Government's permission is required in the case of posts carrying salaries over Rs. 500/- a month. Consultation with the Union Public Service Commission is also necessary in such cases; but consultation is not required if the appointment is for a temporary period not exceeding three months. The Corporation is to make, with the approval of the Government of India, Regulations regarding methods of recruitment, pay and allowances, discipline, superannuation benefits and other conditions of service of the members of the staff. By section 45, the Central Government is empowered to make rules for the Corporation. No act of the Corporation or of the Councils are invalid by reason of any defect in their constitution or appointment of their members, etc. All officers and servants of the Corporation are public servants within the meaning of Section 21 of the Indian Penal Code.

Industrial Finance Corporation

The Corporation was set up according to the provisions of the Industrial Finance Corporation Act, 1948. Section 6 of the Act establishes a Board of Directors for the Corporation consisting of the following members:—

(*a*) a Chairman to be appointed by the Central Government after consultation with the Board;

(*b*) four directors nominated by the Central Government;

(*c*) two directors nominated by the Central Board of the Reserve Bank;

(*d*) two directors elected in the prescribed manner by the Scheduled Banks who are shareholders of the Corporation;

(*e*) two directors elected in the prescribed manner by the shareholders of the Corporation other

than the Central Government, the Reserve Bank and the Scheduled Banks and Co-operative Banks;

(*f*) two shareholders elected in the prescribed manner by the Co-operative Banks who are shareholders of the Corporation.

The Chairman receives such salary and allowances as are determined by the Board with the approval of the Central Government. He holds office for three years or until his successor is appointed. He is eligible for reappointment. A nominated director holds office during the pleasure of the authority nominating him and an elected director for four years. An elected director is required to continue in his office till his successor has been elected. Further, an elected director is not eligible for re-election for more than two full consecutive terms. A casual vacancy in the office of an elected director is to be filled by election and the new director will hold office for the unexpired portion of the term of his predecessor. But no such election is required if the unexpired term is only three months or less. Except the Chairman and those who are also servants of the Corporation, directors are paid such fees as are prescribed for attending meetings of the Board. No action or proceedings of the Board are to be called in question merely because of the existence of some defect in its constitution or vacancy in it. If the Chairman is unable to carry out his duties due to reasons not involving the vacation of his office, the Central Government, after consultation with the Board, is to appoint another person in his place for the period of his absence.

The Act prescribes certain disqualifications for a director. They are:—

1. if he is a salaried official of the Corporation (except in the case of the Chairman);
2. if, at any time, he has been declared an insolvent or has suspended payment of his debts, or has compounded with his creditors;
3. if he is a lunatic or of unsound mind; and
4. if he has been convicted of any offence involving moral turpitude.

The Corporation is given power to appoint a General Manager and such other officers and servants as it considers necessary.

Section 14 of the Act creates a Central Committee, consisting of a Chairman, two directors elected by the nominated directors, and two others elected by the elected directors. A director elected to the Central Committee holds both offices concurrently and when he ceases to be a member of the board ceases to be a member of the Committee too. The Chairman of the Board is also the Chairman of the Central Committee.

Air Corporations

The Air Corporations Act, 1953, established two separate Corporations, viz., the Indian Airlines Corporations and the Air-India International. Each Corporation consists of not less than five members, but not more than nine and all are appointed by the Central Government. One of the members is appointed as the Chairman by the Central Government. It is also provided in the Act that the same person may be the Chairman of both Corporations or the Chairman of one and a member of the other. Further, the same persons may be appointed as members of both Corporations. Any financial interest or any other interest which prejudicially affects the exercise by him of his functions as a member is a disqualification to membership. The Central Government may ask a person to be appointed as a member to furnish it with information necessary on these matters. Such information may be called for from members from time to time. If any member is directly or indirectly interested in a contract made or proposed to be made by the Corporation or its associate, he is to disclose the nature of his interest at a meeting of the Corporation and the member is barred from participating in any deliberations or decisions pertaining to that contract. During the

absence of the Chairman of either Corporation, the Central Government may appoint another person to that post and he need not be a member of the Corporation.

The Chairman and members hold office for the period specified in their appointment order. Each Corporation is to pay to its members such remuneration for their office as may be determined by it subject to the previous approval of the Central Government. The Chairmen may be paid such additional sums as may be determined after getting the approval of the Central Government. The existence of a vacancy or any defect in the constitution of the Corporation will not invalidate any of their acts or proceedings. Each Corporation may appoint a General Manager and such other officers and servants as it considers necessary. The appointment of the General Manager and such other officers as are specified in the rules require the sanction of the Central Government. Neither the General Manager nor any other employee of either of the Corporations as may be specified in this behalf by the Central Government shall, during his period of office, be employed directly or indirectly in any air-transport undertaking which is not one of either of the Corporations or have any interest in any such undertaking which is interested in any contract with either of the Corporations.

State Bank of India

This Bank was established in accordance with the State Bank of India Act, 1955. The management of the Bank is entrusted to a Central Board of Directors, which consists of the following members :

(*a*) a Chairman and Vice-Chairman appointed by the Government of India after considering the recommendations of the Central Board;

(*b*) not more than two Managing Directors appointed by the Central Board after getting the approval of the Central Government;,

(*c*) six directors elected by the shareholders, other than the Reserve Bank whose names are entered in the various branch registers. However, if the total amount of holdings of such shareholders on any branch register three months before the date fixed for such election is below 2½% of the total issued capital, all the directors to be elected on that register shall be nominated by the Reserve Bank of India.

(*d*) eight directors nominated by the Central Government in consultation with the Reserve Bank to represent as far as possible territorial and other interests;

(*e*) one director to be nominated by the Central Government; and

(*f*) one director to be nominated by the Reserve Bank.

The term of office of the Chairman and Vice-Chairman will be fixed when appointing them, but shall not exceed five years. They are, however, eligible for re-appointment. A Managing Director is appointed by the Central Board for a period not exceeding five years. He is also eligible for reappointment. A director referred to in (*c*) and (*d*) above hold office for four years and thereafter till a successor has been nominated or elected as the case may be and those referred to in (*e*) and (*f*) during the pleasure of the Authority nominating them.

Section 22 says that no person shall be qualified to be a member of the Board if

(*a*) he holds the office of director or provisional director, promoter or agent or manager of any banking company already established or advertised as about to be established ;

(*b*) he is a dismissed Government servant on charges of corruption and bribery;

(*c*) he is a salaried Government officer not nominated to the board;

(*d*) he holds an office of profit under the State Bank other than

the office of Chairman, Vice-Chairman or Managing Director;

(*e*) he has ever been adjudicated an insolvent or has suspended payment of his debts or has compounded with his creditors;

(*f*) he is a lunatic or of unsound mind;

(*g*) he has been convicted of an offence involving moral turpitude; and

(*h*) in the case of an elected director, he is not registered as a holder in his own right of unencumbered shares in the State Bank of a nominal value of at least five thousand rupees. Further no two persons who are partners of the same firm or are directors of the same private company or one of whom is an agent of the other or holds a power of attorney from a firm of which the other is a partner can become directors of the Central Board.

Membership of Parliament or of any State Legislature is another disqualification. When such a member becomes a director he must resign from the Legislature of which he is a member. Similarly when a director becomes a member of any Legislature he must resign his directorship. All Members except the Chairman and Vice-Chairman may resign their office by giving notice to that effect in writing to the Central Board and in the case of these two, to the Central Government. Any director absenting himself from three consecutive meetings of the Central Board without its permission loses his membership. The shareholders, other than the Reserve Bank, whose names are entered in the various branch registers, may, by a resolution passed by a majority of votes of such shareholders holding in the aggregate not less than one half of the share capital held by all such shareholders, remove any director elected by them. If the Chairman and Vice-Chairman are unable to discharge their duties due to valid reasons not involving the vacation of their offices, the Central Government, after consultation with the Reserve Bank and after considering the recommendations of the Central Board, may appoint other persons to fill the vacancies. If the same happens in the case of the Managing Director, the Central Board may fill the vacancy, with the approval of the Central Government. If a vacancy arises before the expiry of the office of the term of the director, it is to be filled by election in the case of an elected director and by nomination in consultation with the Reserve Bank in the case of a director who is nominated by the Government of India. In case the vacancy in the office of an elected director is likely to be less than six months, then it may be filled by the remaining directors by co-opting a person. Any person so chosen to fill a temporary vacancy of a director, holds office only for the unexpired portion of the term of his predecessor.

The Chairman and Vice-Chairman receive such salary and allowances as are determined by the Central Board with the approval of the Central Government. The Managing Director who is a wholetime officer of the Bank receives such remuneration as is fixed by the Central Board with the concurrence of the Government of India. All other directors are paid such fees and allowances for attending meetings of the Central Board or any of its committees or attending to any other work of the State Bank as may be prescribed.

Section 30 permits the Central Board to appoint committees, including an executive committee of itself, to discharge such functions as the Board may delegate.

By Section 43 the Bank is given power to have such number of officers; advisers, employees etc. as it considers necessary.

Life Insurance Corporation

This Corporation was established in 1956 by the Life Insurance Corporation Act, 1956. It consists of such number of persons as are determined by the Government of India, but not exceeding fifteen. One of them is designated to be its Chairman by the Central Government. A member of the Corporation is not to have any financial or any other interest

which is likely to be prejudicial to the proper exercise of his functions as a member. To ensure this the Government is given power to call for any information that it considers necessary from a person to be appointed as a member. When a member comes to have any interest, directly or indirectly in a contract made or proposed to be made by the Corporation, he must give that information to the Corporation and should not participate in any discussion of the Corporation relating to that matter. The terms and conditions of service of members are to be according to the rules made by the Government of India under Section 48 of the Act.

Section 19 of the Act gives the Corporation power to establish an Executive Committee from among its members. It may also constitute an Investment Committee for the purpose of advising it on matters relating to the investment of its funds. The Committee is to consist of not more than seven members of whom at least three shall be persons who have special knowledge and experience in financial matters, particularly, relating to investment of funds.

The Corporation may appoint one or more Managing Directors. Every Managing Director is a wholetime officer of the Corporation. Section 23 enables the Corporation to appoint the necessary staff.

The Central Warehousing Corporation

Set up according to the provisions of the Agricultural Produce (Development and Warehousing) Corporation Act, 1956, this Corporation has a Board of Directors consisting of all the seven members of the Executive Committee of the National Co-operative Development and Warehousing Board established under the same Act, two Directors nominated by the above mentioned Board other than those who are members of the Executive Committee, the representative of the State Bank of India on the N C D W B, one director for each of the following shareholders viz. (1) Scheduled Banks (2) Co-operative Banks (3) Insurance Companies, investment trusts and financial institutions and (4) recognised associations and joint stock companies dealing in agricultural produce, and lastly the Managing Director appointed by the N C D W B in consultation with the Board of Directors of the Corporation. The Vice-Chairman of the N C D W B and the Vice-Chairman of the Executive Committee are the Chairman and Vice-Chairman respectively of the board of directors of the Corporation. The Managing Director is a wholetime officer of the Corporation. The Directors, except the Managing Director, receive by way of remuneration such sums as the Corporation fixes, with the approval of the N C D W B. However, no official director is entitled to receive any remuneration other than the allowances admissible to him under the rules regulating his conditions of service. The Managing Director's remuneration is fixed by the Corporation with the approval of the N C D W B. The terms of office and the manner of filling casual vacancies among the directors are those prescribed by the Government of India. N C D W B may also remove any director who has become subject to any of the disqualifications mentioned in the Act or has failed to attend without leave three consecutive meetings of the Corporation. A person becomes disqualified if —

(*a*) he is found to be lunatic or possesses an unsound mind;

(*b*) he has at any time been adjudged an insolvent, or has suspended the payment of his debt or has compounded with his creditors;

(*c*) he has been convicted for any offence involving moral turpitude;

(*d*) he is a dismissed Government servant on charges of corruption and bribery;

(*e*) he is, except in the case of the Managing Director, a salaried official of the Central or State Warehousing Corporation; and

(*f*) he has, directly or indirectly any interest in any subsisting contract, made with or any work being done for the Central Warehousing Corporation except as

a shareholder (other than a director) in any public company as defined in the Companies Act, 1956, and such a shareholder is to disclose to the Corporation the nature and extent of his shares.

Section 26 sets up an Executive Committee consisting of the Chairman and Vice-Chairman of the Board of Directors who shall be the Chairman and Vice-Chairman respectively of the Committee, the Managing Director and two other directors chosen by the Corporation in the prescribed manner. The Corporation is entitled to appoint other employees and the terms and conditions of their service will be on the basis of the Regulations made by the Corporation.

II. AREA BOARDS AND BRANCHES

Damodar Valley Corporation

The Corporation does not have any area board.

Rehabilitation Finance Administration

The Act setting up the Administration does not create any branches. However, sub-section (3) of Section 37 of the Act says that the Administration may, with the previous approval of the Central Government, open branches at such places in India as it considers necessary.

Employees' State Insurance Corporation

Section 25 of the Act allows the Corporation to appoint Regional Boards, Local Committees and Regional and Local Medical Benefit Councils in such areas and in such manner as may be provided by Regulations.

Industrial Finance Corporation

The Industrial Finance Corporation Act lays down that the Corporation shall have its branches in Bombay, Calcutta, Kanpur and Madras. Power is given to the Corporation to establish other offices or agencies in other places in India with the previous sanction of the Central Government.

Air Corporations

Section 40 of the Act says that each of the Corporations may appoint a committee or committees consisting of some or any of its members with or without the addition of any officer or employee of the Corporation and delegate any of the functions and powers to such a Committee or Committees and may limit the exercise of such delegated authority to a specified area. It is also provided that either of the Corporation may, in relation to any particular matter or class of matters, or to any particular area, by general or special order, direct that any of its officers or employees shall also exercise all or any of its powers under this Act (except the powers given to it by this section) to the extent to which the Corporation deems it necessary.

State Bank of India

Section 16 of the State Bank of India Act provides for the establishment of three local head offices—one each at Bombay, Calcutta and Madras. The Central Government is given power to establish similar offices elsewhere in consultation with the Central Board. Each local head office has a local board consisting of all the directors of the Central Board who are elected by the shareholders other than the Reserve Bank whose names are entered in the various branch registers or all the directors nominated by the Central Government in consultation with the Reserve Bank to represent territorial and economic interests, and not more than four directors to be elected by the shareholders whose names are entered on the branch register or in the absence of election, nominated by the Central Government in consultation with the Reserve Bank as may be prescribed. The Central Board may also constitute a Local Committee consisting of such number of members as it may determine. All disqualifications mentioned in the Act in regard to membership of the Central Board are valid with regard to membership of both Local Board and Local Committees. A member of the Local Board or Local Committee may resign by giving notice to that effect in writing to the Central Board. Any member of the Local Board or Committee who absents himself from three consecutive meetings of the Board or

Committee as the case may be, loses his membership. An elected member of a Local Board may be removed if the shareholders whose names are entered on the Branch register other than the Reserve Bank, by a resolution passed by the votes of the shareholders holding in the aggregate not less than one half of the share capital on the branch register ask for it.

Life Insurance Corporation

Four zonal offices, one each at Bombay, Calcutta, Kanpur and Madras may be established under the Act. The Corporation may establish with the previous approval of the Central Government such other zonal offices as it thinks fit. The management of a zonal office is entrusted to a zonal manager who need not be a member. It may also constitute for each zone a Board consisting of such number of persons as it thinks fit to appoint to advice the zonal manager with respect to such matters as are referred to it under Regulations made by the Corporation.

Central Warehousing Corporation

This Corporation also does not have any branches. The Agricultural Produce (Development and Warehousing) Corporation Act, is an enabling Act. It provides for the setting up of State Warehousing Corporations.

III. FINANCE

Damodar Valley Corporation

Section 29 of the Act says that the Corporation shall have its own fund and that all receipts of the Corporation are to be carried to that fund and all payments made therefrom. Except when the Government of India directs otherwise, all moneys belonging to the fund are to be deposited in the Reserve Bank of India or invested in such securities as may be approved by the Central Government. The entire capital of the Corporation is provided by the three participating Governments and each of them is to provide its share on the dates specified by the Corporation, failing which, the Corporation may raise a loan to make up the deficit at the cost of the Government concerned. The capital of the Corporation is to be allocated to its three main objects viz. irrigation, power and flood control. However, the Corporation has power to spend such sums as it thinks fit on other objects authorised by the Act and such expenses are payable out of the funds of the Corporation. All profits made after making allowances for depreciation attributable to each of the three main objects shall be credited to the participating Governments in proportion to their respective shares in the total capital cost attributable to that project. And any deficit incurred is to be made good by the participating Governments in the same proportion except that the entire deficit with respect to flood control is to be met by the Government of West Bengal. The Corporation has to pay interest on the amount of capital provided by each participating Government, but the rate of interest is to be fixed by the Central Government. However, for a period not exceeding fifty years from the establishment of the Corporation, if the Corporation runs a deficit, the interest charges and all other expenditures shall be added to the capital cost and all receipts shall be taken in reduction of such capital cost. Further, the Corporation is to make provision for depreciation, reserve and other funds at such rates and on such terms as may be prescribed by the Auditor-General of India in consultation with the Central Government.

The Corporation is given power to borrow funds to carry out its duties after getting the approval of the Central Government. With regard to taxation the Corporation is liable to pay any Central taxes on income in the same manner and to the same extent as a company and the State Governments are not entitled to have any refund of any such taxes paid by the Corporation; but in the event of any betterment levy being imposed by a State Government, the proportionate proceeds thereof in so far as they are attributable to the operation of the Corporation shall be credited to the Corporation.

Section 44 of the Act makes it obligatory for the Corporation to prepare

an annual budget. It says that the Corporation, in consultation with the Financial Adviser, shall prepare in October every year a budget for the next financial year in the prescribed manner, showing the estimated receipts and expenditure and the amounts which would be required from each of the three participating Governments during that financial year. This budget, to be made available to the Governments concerned by 15th of November, is to be laid before the Central and the two State Legislatures.

Rehabilitation Finance Administration

According to the Act, the Central Government is to advance to the Administration funds for conducting its business. At no time shall the total amounts so advanced exceed ten crores of rupees. All moneys received by the Administration is to be deposited in the Reserve Bank of India or any of its agents or else, invested in such securities as are approved by the Central Government. The Administration is to pay on the amounts advanced by the Government 3 per cent interest per annum. Section 20 exempts the Administration from payment of income-tax, super-tax or business-profits tax on any incomes, profits or gains.

Employees' State Insurance Corporation

The principal source of income of the Corporation consists of the contributions made by the employees and employers. The Act also provides for a Central Government grant during the first five years of a sum equivalent to two-thirds of the Administrative expenses other than the cost of the benefits. The Corporation is permitted to accept grants, donations and gifts from the Central or any State Government, local authority or any individual or body whether incorporated or not. All contributions and other moneys received are to be paid into a fund called the Employees State Insurance Fund to be held and administered by the Corporation. However, subject to the other provisions in the Act and to the rules and regulations in this behalf, all moneys payable into this fund are to be paid into the Reserve Bank of India or any other bank approved by the Central Government to the credit of an account called the Employees State Insurance Fund to be operated on by such officers as may be authorised by the Standing Committee with the approval of the Corporation. Further, subject to such conditions as may be prescribed by the Central Government, the Corporation is allowed to hold property, both movable and immovable, sell or transfer such properties and do all other things necessary for the purposes of the Corporation. In the same manner the Corporation may invest any of its funds which are not immediately required. Again with the previous sanction of the Central Government and on such terms as may be prescribed by it, the Corporation may raise loans and take measures for discharging such loans.

Section 32 deals with the budget of the Corporation. It says that the Corporation shall in each year frame a budget showing the probable receipts and expenditure which it proposes to incur during the following year and shall submit a copy of the budget to the Central Government for approval before such date as may be fixed by it in that behalf. The budget must contain provisions adequate in the opinion of the Central Government for the discharge of the liabilities incurred by the Corporation and for the maintenance of the working balance.

Industrial Finance Corporation

It has an authorised share capital of ten crores of rupees divided into twenty thousand fully paid-up shares of five thousand rupees each, of which the ten thousand shares are issued in the first instance and the remaining shares are to be issued with the sanction of the Central Government. Of the capital issued in the first instance, the Reserve Bank and the Government of India hold two thousand shares each. Out of the other six thousand shares the scheduled banks are allotted two thousand five hundred shares, insurance companies, investment trusts and other like financial institutions two thousand five hundred shares and cooperative banks one thousand

shares. No single institution is eligible to hold more than 10 per cent of the shares reserved for the class of institutions to which it belongs. Allotment of shares is done by the Board of Directors is accordance with the regulations made in this behalf. If any shares reserved for the latter class of institutions remain unallotted, they are to be subscribed by the Reserve Bank and the Central Government according to an agreed proportion. If and when the remaining shares or part thereof are issued they are to be subscribed by the subscribers mentioned above in the same proportion as for the first issue. The Corporation's shares are non-transferable except to the Central Government, Reserve Bank and the other institutions eligible according to the Act to subscribe to its shares, in accordance with the regulations made in this behalf. The shares are guaranteed by the Central Government as to the repayment of principal and the payment of the annual dividend at such minimum rates as are fixed by the Government at the time of issuing the shares. The Corporation may invest its funds in the securities of the Central Government or of any State Government. The Corporation is also allowed to open Deposit Accounts with the Reserve Bank or with any agency of the Reserve Bank other than a Government Treasury, or in consultation with the Reserve Bank, with a Scheduled Bank or with a State Cooperative Bank. Likewise the Corporation may accept deposits from the public repayable after the expiry of a period, which shall not be less than five years from the date of the making of the deposit and on such other terms as it thinks fit. At no time, however, shall such deposits exceed Rs. 10 crores.

With regard to declaration of dividend the Act says that after making provision for bad and doubtful debts, depreciation of assets and all other matters which are usually provided by bankers, the Corporation may, out of its net annual profits, declare a dividend. And so long as the reserve fund in less than the paid up share capital and until the Corporation has repaid to the Central Government, such sums, if any, as the latter may have provided under any guarantee that it has given either with regard to the share capital of the Corporation or its borrowings, the rate of the dividend shall not exceed the rate guaranteed by the Central Government. Moreover, under no circumstances shall any dividend exceed the rate of 5% per annum. If in respect of any financial year after the reserve fund becomes equal to the share capital of the Corporation, there is, after declaring a dividend at that rate any surplus in the net profits, such surplus is to be paid to the Central Government. Apart from the reserve fund, the Corporation has a special reserve fund also. It consists of all the dividends accruing on the shares held by the Government and the Reserve Bank. These dividends, instead of being paid to them, are credited to the special reserve fund until the aggregate of sums so credited exceeds fifty lakhs of rupees. No other share holders have any claim on this special reserve fund.

Section 21 gives the Corporation power to issue and sell bonds and debentures carrying interest for the purpose of raising its working capital, but the total amount of bonds and debentures issued and outstanding and of the contingent liabilities of the Corporation in the form of guarantees given by it or underwriting agreements entered into by it is not at any time to exceed five times the amount of the paid up share capital and the reserve fund of the Corporation. Bonds and debentures so issued are to be guaranteed by the Central Government as to the repayment of the principal and the payment of interest at such rates as may be fixed by the Central Government on the recommendations of the Board at the time the bonds and debentures are issued. Borrowing from the Reserve Bank is also permitted repayable (a) on demand or on the expiry of fixed periods not exceeding ninety days from the date on which the money is so borrowed against the securities of the Central Government or of any State Government, or (b) on the expiry of fixed periods not exceeding eighteen months from the

date on which the money is so borrowed, against securities of the Central Government of any maturity or against bonds and debentures issued by the Corporation and guaranteed by the Central Government and maturing within a period not exceeding eighteen months from the date on which the money is so borrowed. The amounts borrowed under clause (*b*) are not at any time to exceed three crores in the aggregate. Similarly the Corporation may borrow from the Central Government also on such terms and conditions as may be agreed upon. However, the Act has placed a ceiling on the amounts that the Corporation may borrow by all these means stated above: it is not to exceed five times the amount of the paid-up share capital and the reserve-fund of the Corporation. Section 27 of the Act permits the Corporation to borrow, with the previous consent of the Central Government, foreign currency from the International Bank for Reconstruction and Development or otherwise. The Central Government may, where necessary, guarantee all foreign loans taken by the Corporation as to the repayment of the principal and the payment of interest and other incidental charges. Any loss or profit accruing to the Corporation in connection with any borrowing of foreign currency or its repayment on account of any fluctuations in the rate of exchange shall be reimbursed by or paid to, the Central Government as the case may be.

Air Corporation

The capital of the two Corporations is supplied by the Central Government on such terms and conditions as the Central Government may determine. Each of the Corporations may, with the consent of the Central Government or in accordance with the terms of any general authority given to it by the Central Government, borrow money for all or any of the purposes of the Corporation and secure the payment of any money borrowed by it or any interest thereon by the issue of bonds, debentures, debenture-stocks or any mortgage or charge or other security on the undertaking of the Corporation or any part of it or any of its properties. Each Corporation is entitled to have its own fund and all receipts of the Corporation are to be credited to that fund and payments made therefrom. Each of the Corporation may keep in current account with any scheduled bank or any other bank approved by the Central Government in this behalf a sum of money not exceeding such amount as may be prescribed, but any moneys in excess of the said sum shall be deposited in the Reserve Bank of India or invested in such manner as may be approved by the Central Government.

State Bank of India

The authorised capital of the bank is Rs. 20 crores, divided into twenty lakhs fully paid-up shares of one thousand rupees each. The Central Government may increase or reduce this amount. The issued capital is Rs. 5 crores 62 lakhs and 50 thousands, the whole of which is held by the Reserve Bank. The Central Board of the bank may increase the issued capital but no such increase shall be made in such a manner that the Reserve Bank holds at any time less than 55 per cent of the issued capital. Furthermore, any increase beyond 12.5 crores requires the previous sanction of the Central Government. The shares are freely transferable except that in the case of the Reserve Bank it must always hold a minimum of 55 percent of the total issued capital. No person is to be registered as a shareholder in respect of any shares held by him, whether in his own name or jointly with any other person, in excess of two hundred shares or be entitled to payment of any dividend on the excess of shares held by him, or to exercise any of the rights of a share holder in respect of such excess shares otherwise than the purpose of selling them. This provision will not apply to the Reserve Bank, a Corporation, an insurer as defined in the Insurance Act 1938, a local authority, a cooperative society and a trustee of a public or private religious or charitable trust except that none of them with the sole exclusion of the Reserve Bank shall be eligible to exercise voting rights in respect of shares

held by him in excess of one per cent of the issued capital.

Section 36 provides for the State Bank a special fund called the Integration and Development Fund into which is paid the dividends payable to the Reserve Bank on such shares of the State Bank by it as do not exceed 55% of the total issued capital and such contributions as the Reserve Bank or the Central Government may make from time to time. This fund is the property of the Reserve Bank and is to be used exclusively for meeting losses in excess of such yearly sums as may be agreed upon between the Reserve Bank and the State Bank and attributable to the branches established in pursuance of subsection (5) of Section 16 (i.e. establishment of not less than 400 new branches within five years of the setting up of the bank) and such other losses or expenditure as may be approved by the Central Government in consultation with the Reserve Bank. A Reserve Fund is also created consisting of the amount held by the former Imperial Bank as Reserve Fund and transferred to the State Bank on the establishment of the latter, and such other sums as may be set aside for the purpose from the net profits of the bank. Section 38 says that the Central Board may, after making provision for bad and doubtful debts, depreciation of assets, equalisation of dividends, contribution to staff and superannuation funds and for all other matters for which provision is necessary or which are usually provided for by banking companies, declare out of its annual net profits a dividend.

Life Insurance Corporation

The original capital provided for the Corporation is five crores, to be made available by the Central Government under such terms and conditions as may be determined by it. On the recommendation of the Corporation its capital may be reduced to such an extent and in such manner as the Central Government may determine. The Corporation has its own fund and all its receipts are credited to this fund and its payments made therefrom.

Central Warehousing Corporation

Section 18 of the Act says that the authorised capital of the Corporation shall be Rs. 20 crores, divided into twenty lakhs shares of the face value of one thousand rupees each of which 50% of the shares of the face value of Rs. 10 crores shall be issued in the first instance, and the remaining shares shall be issued with the sanction of the Central Government, as and when the Corporation may deem fit. The capital issued in the first instance are to be subscribed in the following manner: (a) the N C D W B, 40,000 shares, (*b*) the State Bank of India, 10,000 (*c*) other scheduled Banks, 125,000 (*d*) insurance companies, investment trusts and other classes of financial institutions, 30,000 (*e*) co-operative societies, 25,000 and (*f*) recognised associations of joint-stock companies dealing in agricultural produce, 5000. If any shares referred to in (*c*), (*d*),(*e*) and (*f*) remain unallotted they are to be subscribed by the N C D W B and the State Bank in such proportion as may be agreed upon by them. No institution belonging to any of these four categories is entitled to subscribe for more than 25% of the share-capital reserved for that class of institution. If and when the remaining shares or part thereof are issued the subscribers of the Corporation mentioned earlier may subscribe for such shares in such proportion as may be determined at the time of the issue of the shares. The shares are non-transferable except to the N C D W B or the State Bank or any institution belonging to any class of the Corporation's subscribers. The shares are also guaranteed by the Central Government as to the repayment of the principal and the payment of annual dividend at such minimum rate as may be fixed by the Central Government at the time of the issue of the shares.

Section 37 gives the Corporation the power to borrow. The Corporation may, in consultation with the Reserve Bank and the previous approval of the Central Government issue and sell bonds and debentures carrying interest. Provision is, however, made that the total amount

of bonds and debentures issued and outstanding and of the other borrowings of the Corporation shall not at any time exceed ten times the amount of the paid-up capital and the reserve fund. Besides this the Corporation may borrow from the Reserve Bank funds repayable (*a*) on demand or on the expiry of fixed period not exceeding 90 days from the date on which money is so borrowed against the securities of the Central Government or of any State Government, of any maturity, or against bonds and debentures issued by the Corporation and guaranteed by the Government and maturing within a period not exceeding 18 months from the date on which the money is so borrowed. However, borrowings by the latter method shall not at any time in the aggregate exceed Rs. 3 crores. Borrowing from the State Bank is also permitted. The bonds and debentures of the Corporation are guaranteed by the Central Government. The repayment of principal and the payment of interest at such rate as may be fixed by the Central Government on the recommendations of the board of directors at the time they are issued. The Corporation is also entitled to borrow from the Central Government and the N C D W B on such terms and conditions as may be agreed upon between the Corporation and the lender in each case.

All moneys belonging to the Corporation are to be deposited in the Reserve Bank or the State Bank, or subject to the rules, in any scheduled bank or co-operative bank. The Corporation may invest its funds in the securities of the Central or of any State Government. The Corporation is to have a Reserve Fund. After making provision for bad and doubtful debts, depreciation in assets and all other matters which are usually provided for by companies, the Corporation may, declare a dividend. However, so long as the reserve fund is less than the paid up capital and until the Corporation has repaid to the Central Government any amount that the latter has paid under the guarantees it has given to the shares and borrowings of the Corporation, the rate of dividend is not to exceed the rate guaranteed by the Central Government to the shares.

Section 36 makes it obligatory on the part of the Corporation to prepare before the commencement of each year a statement of the programme of its activities during the forthcoming year as well as a financial statement in respect thereof. These statements are to be submitted for approval to the N C D W B within three months of the commencement of the year.

IV. ACCOUNTS AND AUDIT

Damodar Valley Corporation

Section 47 of the Act prescribes that the accounts of the Corporation shall be maintained and audited in such manner as may, in consultation with the Auditor-General of India, be prescribed.

Rehabilitation Finance Administration

The Act says that the affairs of the Administration are to be audited by one or more auditors appointed by the Central Government on such remuneration as may be specified by it. An auditor so appointed holds office for a period of one year. He is eligible for reappointment. Every auditor is to be supplied with a copy of the annual balance sheet and it is his duty to examine this balance sheet together with the accounts and vouchers relating thereto. For this purpose he is to be supplied with all necessary accounts, books and other documents of the Administration. The Act states further that, the auditors shall make a report to the Central Government upon the annual balance-sheet and accounts, and in every such report they shall state whether, in their opinion, the balance sheet is a full and true one and containing all necessary particulars and properly drawn up so as to exhibit a true and correct view of the state of affairs of the Administration.

Employees State Insurance Corporation

Section 38 prescribes that the Corporation shall maintain correct accounts of its income and expenditure in such form and such manner as may be prescribed by the Central Government. Regarding the audit of accounts the provision in the Act is that they shall be

audited at such times and in such manner as may be prescribed by auditors appointed by the Central Government. For this purpose the auditors are to have access to the books, accounts and other documents of the Corporation. The auditors may also call for such explanation or information as may be required or examine any principal or other officer of the Corporation. The audit report along with an audited copy of the account of the Corporation are to be submitted to the Central Government. The cost of the audit is determined by the Central Government, but is to be paid out of the funds of the Corporation.

Industrial Finance Corporation

The affairs of the Corporation are to be audited by not less than two auditors, one of whom is appointed by the Central Government in consultation with the Comptroller and Auditor General of India. The other one is elected in the prescribed manner by the shareholders of the Corporation except the Central Government and the Reserve Bank. Every auditor is to be supplied with a copy of the annual balance sheet of the Corporation as well as all the necessary accounts, vouchers, books and other documents. He may also examine any Director or Officer of the Corporation. The Auditors shall make a report to the shareholders upon the annual balance sheet and accounts and in every such report they shall state whether in their opinion the balance sheet prepared by the Corporation is a full and fair one, containing all necessary particulars so as to present a true and correct picture of the affairs of the Corporation and in case they have asked for any explanation or information from the Board whether it has been given and whether it is satisfactory. The Corporation is to send a copy of the audit report to the Comptroller and Auditor-General at least one month before it is placed before the shareholders. The Comptroller and Auditor-General is also given power by the Act to undertake of his own motion, such audit and at such times as he may consider necessary. Further, when the Central Government is required to make any payment on account of any guarantee given by it to the shares of the Corporation on its borrowings, such audit is to be undertaken by the Comptroller and Auditor-General of India.

Air Corporations

Section 15 of the Act says that the Corporations shall maintain proper accounts and other relevant records and prepare an annual statement of accounts, including the profit and loss accounts and the balance sheet in such form as may be prescribed by the Central Government in consultation with the Comptroller and Auditor-General of India. The Comptroller and Auditor-General is also required to audit the accounts of the Corporation and any expenditure incurred by him in connection with such audit is to be paid by the Corporations to him. In the matter of audit of accounts he has the same rights and privileges and authority as he has in connection with the audit of Government accounts and in particular has the right to demand the production of books, accounts, related vouchers and other documents and papers and to inspect any of the officers of the Corporation.

State Bank of India

The balance sheet and the profit and loss accounts are to be signed by the Chairman, Vice-Chairman, Managing Directors, if any, and a majority of the other directors. Within two months of the date on which the accounts of the banks are closed and balanced, the bank is to submit to the Central Government and the Reserve Bank a statement showing as far as may be available, the name, address, occupation and the number of shares held by each shareholder of the bank as on the said date (31st December).

Section 41 of the Act says that the affairs of the bank are to be audited by two auditors appointed by the Reserve Bank in consultation with the Government of India. Their remuneration is also fixed similarly by the Reserve Bank. The Act prescribes certain disqualifications to be an auditor of the bank. It says that an auditor may be a shareholder, but no director or member of

a Local Board or of a Local Committee or an officer of the State Bank shall be eligible to be an auditor during his continuance in office as such director, member or officer. An auditor is eligible for reappointment. Every auditor is to be supplied with all necessary papers, books, accounts etc., and has the right to examine any Director or member of the Local Board or Local Committee or any other officer of the bank. The auditors shall make a report to the Central Government upon the annual balance sheet and accounts, and in every such report they shall state:—

(*a*) whether in their opinion, the balance-sheet is a full and fair one containing all the necessary particulars and properly drawn up so as to exhibit a true and correct view of the affairs of the State Bank, and in case they have called for any explanation or information, whether it has been given or whether it is satisfactory;

(*b*) whether or not the transactions of the State Bank which have come to their notice have been within the powers of the State Bank;

(*c*) whether or not the returns received from the offices and branches of the State Bank have been found adequate for the purpose of their audit;

(*d*) whether the profit or loss account shows a true balance or profit and loss for the period covered by such account; and

(*e*) any other matter which they consider should be brought to the notice of the shareholders or of the Central Government as the case may be.

Life Insurance Corporation

The accounts of the Corporation are to be audited by auditors appointed by the Corporation with the previous approval of the Central Government. The Corporation is to pay to the auditors such remuneration as may be fixed by the Central Government. To enable the auditor to perform his duties, he is to have access to the books, accounts and other documents of the Corporation. The auditors have to submit their report to the Corporation asto well as to the Central Government.

Central Warehousing Corporation

Section 42 of the Act prescribes that the Corporation must maintain proper accounts and other relevant records and prepare an annual statement of accounts including the profit and loss account and the balance-sheet in such manner as may be prescribed. The Corporation's accounts are to be audited by not less than two auditors appointed by the Central Government. One of them is to be appointed in consultation with the Comptroller and Auditor-General of India. The auditors are to have access to all papers, accounts, books and other documents of the Corporation. They may also examine any director or officer of the Corporation. The auditors are to report to the shareholders and in the report they are to indicate whether the balance-sheet is a full and fair one and whether it presents a true and correct view of the affairs of the Corporation. The Corporation has to submit the audit report to the Comptroller and Auditor-General and to the N C D W B at least one month before it is placed before the shareholders. The Comptroller and Auditor-General may, of his own, undertake an audit of the accounts of the Corporation. Further, where the Central Government is required to make payment in respect of any guarantee given by it to the shares or borrowings of the Corporation, such audit shall be undertaken by the Comptroller and Auditor-General.

V. RELATION WITH GOVERNMENT

Damodar Valley Corporation

In the discharge of its functions, says Section 48 of the Act, the Corporation is to be guided by such instructions on questions of policy as may be given to it by the Central Government and in case of dispute between the Corporation and the Government as to whether a question is one of policy or not, the decision of the Central Government is final.

Any other dispute between the Corporation and any of the participating Government regarding any matter covered by the Act or touching or arising out of it is to be referred to an arbitrator appointed by the Chief Justice of India. The Central Government is given power by the Act to remove a member of the Corporation if the particular member (*a*) refuses to act, (*b*) has become incapable of acting, (*c*) has so abused his position as a member as to render his continuance on the Corporation detrimental to the interest of the public, or (*d*) is otherwise unsuitable to continue as a member. A member may also be suspended by the Central Government. However, it is also provided that a member may not be removed without giving him an opportunity to submit his explanation to Government. Any member who has been so removed is barred from being reappointed as member or in any other capacity in the Corporation. Besides, if the Corporation fails to carry out its functions, or follow the directions issued by the Central Government, the Central Government has the power to remove the Chairman and members of the Corporation and appoint others to fill their places. Power is also given to the Government to declare void any transaction with which a member has been connected.

The Act gives the Central Government power to make rules to provide for any or all of the following matters:—

(*a*) salaries and conditions of service of members, the Secretary and Financial Adviser;

(*b*) the functions and duties of the Financial Adviser;

(*c*) the dams and other works or the installations which may be constructed without the approval of the Corporation;

(*d*) the forms of the budget, the annual report and the financial statements and the dates on which copies of the annual financial statement shall be made available to the participating Government;

(*e*) the manner in which the accounts of the Corporation shall be maintained and audited;

(*f*) the appointment of an Advisory Committee; and

(*g*) the punishment for any breach of any rule made under the Act.

Rehabilitation Finance Administration

Section 8 of the Act says that the Central Government may, for any reason which may appear to it to be sufficient, remove any member at any time from the Administration. The Central Government is also empowered to give to the Administration such general or special directions as it thinks fit and the administration is to comply with any such directions. The power to make rules for the Administration is also given to the Central Government.

Employees' State Insurance Corporation

By Section 92 the Central Government is given power to give directions to a State Government as to the carrying into execution of the Act in the State. The Central Government is empowerd to remove a nominated member to the Corporation, Standing Committee and the Benefit Council who is a representative either of employers, employees or the medical profession from any of these three bodies, if it is of the opinion the member concerned no more represents the profession to represent which he was originally nominated. If in the opinion of the Central Government, the Corporation or the Standing Committee persistently makes default in performing its duties or abuses its powers, the Government may, supersede the Corporation or in the case of the Standing Committee supersede it in consultation with the Corporation.

The Central Government may make rules on all matters and particularly:—

(*a*) the manner in which nominations and elections of members of the Corporation, Standing Committee and the Medical Benefit Council may be made;

(*b*) the quorum at meetings of the Corporation, the Standing Committee, and the Medical Benefit

Council and the minimum number of meetings of those bodies to be held in a year;

(*c*) the records to be kept of transactions of business by the Corporation, the Standing Committee and the Medical Benefit Council;

(*d*) the powers and duties of the principal officers and the conditions of their service;

(*e*) the powers and duties of the Medical Benefit Council;

(*f*) the procedure to be adopted in the execution of contracts;

(*g*) the acquisition, holding and disposal of property by the Corporation;

(*h*) the raising and repayment of loans;

(*i*) the investment of the funds of the Corporation and of any provident or other benefit fund and their transfer or realisation;

(*j*) the basis on which the periodical valuation of the assets and liabilities of the Corporation shall be made;

(*k*) the bank or banks in which the funds of the Corporation may be deposited, the procedure to be followed in regard to the crediting of moneys accruing or payable to the Corporation and the manner in which any sums may be paid out of the Corporation funds and the officers by whom such payments may be authorised;

(*l*) the accounts to be maintained by the Corporation and the forms in which such accounts shall be kept and the times at which such accounts shall be audited;

(*m*) the publication of the accounts of the Corporation and the report of auditors, the action to be taken on the audit report, the powers of the auditors to disallow and surcharge items of expenditure and the recovery of sums so disallowed and surcharged;

(*n*) the proportion of the budget estimates and of supplementary estimates and the manner in which such estimates shall be sanctioned and published;

(*o*) the establishment or maintenance of provident or other benefit funds for officers and servants of the Corporation; and

(*p*) any matter which is required or allowed by the Act to be prescribed by the Central Government.

Industrial Finance Corporation

Section 6 of the Act lays down that in the discharge of its functions the Board of Directors of the Corporation is to be guided by such instructions on questions of policy as may be given to it by the Central Government. The Central Government's decision will be final in any dispute between it and the Board as to whether a question relates to a matter of policy or not. If the Board fails to carry out the instructions on questions of policy laid down by the Central Government, the latter has the power to supersede the Board and appoint a new Board in its place to function until a properly constituted Board is set up. The Central Government's decision as to the grounds for doing so shall not be questioned in any court of law. The right of the Central Government to remove the Chairman from office has also been specified in the Act. In the matter of audit, the Central Government may, in consultation with the Reserve Bank of India at any time issue directions to the auditors of the Corporation requiring them to report to it upon the adequacy of the measures taken by the Corporation for the protection of its shareholders or creditors or upon the sufficiency of their procedure in auditing the affairs of the Corporation, and may at any time enlarge or extend the scope of the audit or direct that a different procedure in audit be adopted or direct that any other examination be made of the auditors if in its opinion the public interest so requires. The rule making power has also been given to the Central Government.

Air Corporations

According to Section 5 the Central Government is entitled to terminate the services of the Chairman and members of the Corporation earlier than the terms mentioned in their appointment order. The Central Government may give to either of the Corporations directions as to the exercise and performance by the Corporation of functions and the Corporation shall be bound to give effect to such directions. Furthermore, the Central Government may, after consultation with the Corporation concerned direct it:—

(*a*) to undertake any air transport service or other activities which the Corporation has power to undertake;

(*b*) to discontinue or make any change in any scheduled air transport service or other activity which if is operating or carrying; or

(*c*) not to undertake any activity which it proposes to do.

However, it is also provided that if at the discretion of the Central Government the Corporation establishes, alters or continues to maintain an air-transport service or other activity and satisfies the Central Government that during the relevant financial year the Corporation has suffered an overall loss in respect of the operation of all its air-transport services and of all its other activities and also that the service or other activity so established, altered or continued to be maintained in compliance with the directions of the Central Government as aforesaid has been operated in a loss in any financial year, then the Central Government shall reimburse the Corporation to the extent of the loss relatable to the operation of that particular service or activity.

Prior approval of the Central Government is necessary for the Corporation to:—

(*a*) undertake any capital expenditure for the purchase or acquisition of any immovable property or aircraft or any other thing at a cost exceeding Rs. 50 lakhs;

(*b*) enter into a lease of any immovable property for a period exceeding five years; and

(*c*) in any manner dispose of any property, right or privilege having an original or book value exceeding Rs. 10 lakhs.

Each of the Corporations is to prepare and submit to the Central Government, not less than three months from the commencement of each financial year of the Corporation a statement showing the programme of operation and the development of the air transport service to be operated by the Corporation and its associates during the forthcoming financial year and its other activities as well as its financial estimates in respect thereof, including any proposed investment of capital and increase in the strength of its total staff. And if during the financial year the Corporation concerned wants to effect any alteration in its programme of activity as submitted and a substantial change in its financial estimates is involved thereby,the Corporation is to submit to the Central Government for approval a supplementary programme of such service or activity and a supplementary estimate of the expenditure and revenue to be incurred and received by the Corporation in respect thereof during the remainder of that period. However, if the Corporation undertakes any additional service of additional activity not specified in the programme submitted to the Government due to any unexpected traffic demand or other special situation, it is permitted to do so provided a report is submitted to the Central Government subsequently in the prescribed manner.

Section 44 gives the Central Government power to make rules and particularly with regard to the following matters namely:—

(*a*) the terms and conditions of service of the Government Managers of the two Corporations, and such other categories of offices as may be specified from time to time;

(*b*) the form in which the budget of the two Corporations shall be prepared and submitted to the

Central Government; and the form and manner in which the accounts of the Corporations shall be maintained and in which any returns or statistics shall be furnished;

(*c*) the reports which shall be submitted to the Corporation and the intervals within which they should be so submitted;

(*d*) the maintenance of books of accounts;

(*e*) the establishment and maintenance of a fund by each of the Corporations for meeting any liability arising out of any act or omission in respect of which the Corporation may incur any liability to any third party ;

(*f*) the provision of depreciation and other funds;

(*g*) the prohibition of persons who are directly or indirectly affected in any subsisting contract with either of the Corporations from becoming or being employees of the Corporation;

(*h*) the powers which may be exercised by either of the Corporations to facilitate the acquisition of any undertaking;

(*i*) the issue of bonds of either of the Corporations to meet any compensation payable by it under the Act;

(*j*) the training of employees of either of the Corporations or other persons and the fees which may in this discretion be charged therefrom;

(*k*) the term of office and other conditions of service of the members of the Air Transport Council constituted under Section 30 of the Act;

(*l*) the prohibition of any interference with any air transport service or any property of the Corporation or of any interference with or obstruction of any officer or employee of the Corporation in the performance of his duty; and

(*m*) the punishment which shall not exceed imprisonment for three months or fine of rupees one thousand but which may consist of both such imprisonment and fine in respect of any contravention of the provisions of any rules made under the Act.

State Bank of India

Section 18 says that the State Bank is to be guided by such direction in matters of policy involving public interest as the Central Government may, in consultation with the Governor of the Reserve Bank and the Chairman of the State Bank give it. All such directions are to be given through the Reserve Bank and if any question arises whether a direction relates to a matter of policy involving public interest, the decision of the Central Government is final. The Central Government may, after consultation with the Reserve Bank remove from office the Chairman, the Vice-Chairman or any of the eight directors nominated by it. Everyone who is to be so removed must be given an opportunity to explain his case against removal. Section 41 gives Central Government special power to appoint at any time such auditors as it thinks fit to examine and report on the accounts of the State Bank. The Central Government may, after consultation with the Reserve Bank, make rules for the State Bank.

Life Insurance Corporation

In the discharge of its functions the Corporation is to be guided by such directions in matters of policy involving public interest as the Central Government may give to it in writing; and if any question arises whether a question relates to a matter of policy involving public interest, the Central Government's decision is final.

Rule-making power in all matters and particularly the following is given to the Central Government:—

(*a*) the term of office and conditions of service of members;

(*b*) the manner in which the moneys and other assets belonging to any

such fund as is referred to in Section 8 of the Act (i.e. provident and super-annuation funds etc.) shall be appropriated between the trustees of the fund and the Corporation;

(*c*) the services which the Chief agent should have rendered for the purpose of the proviso to Section 12 (*i.e.* transfer of services of existing employees of chief agents of insurers to the Corporation in certain cases at the time of nationalisation);

(*d*) the jurisdiction of the Tribunals constituted under the Act;

(*e*) the manner in which, and the persons to whom, any compensation under the Act may be paid;

(*f*) the time within which any matter which may be referred to a tribunal for decision under this Act may be so referred;

(*g*) the manner in which and the conditions subject to which investment may be made by the Corporation;

(*h*) the manner in which an Employees and Agents Relations Committee may be constituted for each zonal office;

(*i*) the form in which the report giving an account of the activities of the Corporation shall be prepared;

(*j*) the conditions subject to which the Corporation may appoint employees;

(*k*) the fees payable under the Act and the manner in which they are to be collected; and

(*l*) any other matter which has to be or may be prescribed.

Central Warehousing Corporation

Section 20 lays down that the Directors are to be guided by such instructions on questions of policy as may be given to them by the N C D W B. And if any doubt arises as to whether a matter is one of policy or not the decision of the N C D W B is final. The latter is also empowered to remove, at any time in consultation with the Corporation and the previous approval of the Central Government, the Managing Director from office after giving him a reasonable opportunity for showing cause against the proposed removal. In the matter of audit the Central Government may, on the recommendations of the N C D W B and after consultation with the Comptroller and Auditor-General, at any time issue directions, through the N C D W B to the auditors requiring them to report to it upon the adequacy of measures taken by the Corporation for the protection of its shareholders or creditors or upon the efficiency of their procedure in auditing the accounts of the Corporation and may enlarge or extend the scope of the audit or direct that a different procedure in audit may be adopted or direct that any other examination may be made by the auditors if in the opinion of the Central Government it is required in public interest.

The Central Government may make rules for the Corporation, providing for, among other things:—

(*a*) the additional functions which the Corporation may perform;

(*b*) the manner of election and nomination of the directors of the Corporation and the period within which such directors shall be nominated or elected;

(*c*) the term of office of, and the manner of filling casual vacancies among, and the remuneration payable to the directors of the Corporation;

(*d*) the manner of choosing the directors on the Executive Committee of the Corporation;

(*e*) the form of the annual statement of accounts and balance-sheet to be prepared by the Corporation;

(*f*) the deposit of moneys of the Corporation in a scheduled bank or a Cooperative bank; and

(*g*) the manner of issuing the shares of the Corporation, the calls to

be made in respect thereof, and all other matters incidental to these shares.

VI. LABOUR AND PUBLIC RELATIONS

Damodar Valley Corporation

There is no provision in the Act relating to labour relations. With regard to public relations, Section 10 provides for the appointment of Advisory Committees. It says that the Corporation may, from time to time, appoint one or more advisory committees for the purpose of securing the efficient discharge of the functions of the Corporation, and in particular for securing that these functions are exercised with due regard to the circumstances and requirements of particular local areas.

Rehabilitation Finance Administration

The Act does not contain any provision regarding labour relations. There is, however, provision for the appointment of an Advisory Board to advise the Administration on matters of policy, consisting of not more than fifteen members, nominated by the Central Government. Where necessary a Regional Committee to advise each branch of the Administration may also be constituted. Members of the Board hold office for a period of two years unless earlier removed by the Central Government for any reason which appears to it to be sufficient. He may resign by writing to that effect to the Central Government. A member of the Board who has any interest, direct or indirect in any business, industry or concern to which any assistance under Section 12 has been given or is to be given or acquires such interest at any time during the continuance of such assistance is immediately to disclose it to the Administration and is also barred from participating in the proceedings of the Board relating to such assistance.

Employees' State Insurance Corporation

There is no provision in the Act either with regard to labour or public relations. However, the Act provides for the representation of employees and employers on the Corporation, Standing Committee and the Medical Benefit Council.

Industrial Finance Corporation

Section 15 of the Act says that the Corporation may, from time to time, appoint one or more Advisory Committee or Committees for the purpose of assisting the Corporation in the efficient performance of its functions and in particular for the purpose of securing that those functions are exercised with due regard to the circumstances of, conditions in, and requirements of particular areas or industries.

Air Corporations

The Act provides for the appointment of a Labour Relations Committee by each of the two Corporations consisting of the representatives of the Corporation and its employees. The number of representatives of the latter should not be less than that of the Corporation. It is the Committee's duty to advise the Corporation on matters relating to the welfare of the employees or which are likely to promote and secure amity and good relations between the two.

With regard to public relations the Act lays down that the Central Government shall constitute in consultation with the Corporation concerned an Advisory Committee consisting of such number of persons as it may think fit for the purpose of advising the Corporation in respect of such matters as may be referred to it by the Corporation or as may be prescribed.

State Bank of India

There are no provisions in the Act in regard to these matters.

Life Insurance Corporation

The Act provides for the appointment by the Central Government for each zonal office of an Employee and Agents Relations Committee consisting of representatives of the Corporation and its employees and agents. The strength of the Committee is to be determined by the Government. However, the number of representatives of the employees and agents should not be less than the number of their counterparts from the Corporation. The Committee is to advise

the zonal Manager on matters which relate to the welfare of the employees and agents of the Corporation or which are likely to promote and secure amity and good relations between them and the Corporation.

Central Warehousing Corporation

The Act does not contain any provision relating to labour and public relations.

VII. ANNUAL REPORTS

Damodar Valley Corporation

Section 45 prescribes that the Corporation is to submit an annual report within six months after the end of each financial year giving a true and faithful account of its activities during the previous financial year, with particular reference to :—

1. irrigation;
2. water supply;
3. electrical energy;
4. flood control;
5. navigation;
6. afforestation;
7. soil erosion;
8. use of lands;
9. resettlement of displaced population;
10. sanitation and public health measures; and
11. economic and social welfare of the people.

The annual reports must also give a true and faithful account of the income and expenditure during the previous financial year, the net amounts attributable to each of the three main objects and the distribution of the capital cost between the three participating Governments and also show the progressive totals from the inception of the Corporation and the up-to-date financial results. The report is to be made available to each of the participating Governments by 15th October every year and placed before the Central and State Legislature concerned. The Corporation has also to prepare such other annual financial statements in such form and by such dates as may be prescribed.

Rehabilitation Finance Administration

Section 18 prescribes that the Administration should submit to the Central Government a half-yearly report together with accounts and such other information and in such manner as may be prescribed. The report is to be laid before Parliament.

Employees' State Insurance Corporation

The Corporation is to submit an annual report of its work and other activities to the Central Government. The report, the audited account and the budget as finally approved by the Corporation are to be laid before Parliament and published in the official Gazette.

Industrial Finance Corporation

The Corporation is to submit to the Central Government and the Reserve Bank within three months of the close of the financial year a statement in the prescribed form of its assets and liabilities as at the close of the financial year together with a profit and loss account and a report of the working of the Corporation during the year. Copies of these are to be placed before Parliament and published in the official Gazette. The Act also provides that the Corporation shall submit to the Central Government and the Reserve Bank at least once in every year or as frequently as the Government or the Reserve Bank may require a statement showing the classification of its loans guaranteed by it and underwriting agreements entered into by it.

Air Corporations

The two Corporations are required by the Act to submit to the Central Government, after the end of each financial year, reports giving an account of their activities during the previous financial year, and also the activities, if any which are likely to be undertaken by them during the forthcoming year. The Central Government is to place before both Houses of Parliament.

State Bank of India

Section 40 says that the State Bank shall furnish to the Central Government and to the Reserve Bank within

two months from the dates on which its accounts are closed and balanced, its balance sheet, together with the profit and loss account and the auditors report on the working of the State Bank during the period covered by the accounts.

Life Insurance Corporation

After the end of each financial year, the Corporation is to submit to the Central Government a report giving an account of its activities during the previous financial year, and the report is also to give an account of its activities, if any, which the Corporation is likely to undertake in the coming year. Besides Section 26 prescribes that the Corporation shall, every two years, cause an investigation to be made by actuaries into the financial conditions of the business of the Corporation including a revaluation of its liabilities and submit the report to the Central Government. These two reports and the report of the auditors are to be placed before both Houses of Parliament as soon as after such reports are received by the Central Government.

Central Warehousing Corporation

The annual audit report of the Corporation is to be submitted to the Central Government, which shall cause the same to be laid before both Houses of Parliament.

CHAPTER IX

Government Companies

Companies Wholly Owned by Central Government

1. OBJECTS

Hindustan Steel (Private) Ltd.

The Hindustan Steel (Private) Limited was re-registered on 1st April, 1957, to construct, manage and administer the 3 steel plants of Rourkela, Bhilai and Durgapur. This Company was formed two years ago to implement the Rourkela Steel Project. Instead of creating two new Companies to manage Bhilai and Durgapur Steel Projects the Government of India have preferred to provide for the management of all the three Steel Projects by one Company. The object of the Company as mentioned in the Memorandum of Association is to carry on in India trades or business of iron masters, steel makers, steel converters, manufacturers of ferro-manganese, colliery proprietors, engineers and iron founders in all their respective branches.

National Coal Development Corporation (Private) Ltd.

The National Coal Development Corporation (Private) Limited was formed on 5th September, 1956 with its registered office at Ranchi (Bihar). Pursuant to the recommendations of the Railway Collieries Enquiry Committee and Estimates Committee (11th Report), it was decided by Government that the most suitable pattern of administration for the new set up dealing with production of coal in public sector be established in the form of a private Company. The objects for which the Company is established are to purchase, take on lease or in exchange or under amalagamation licence or concession or otherwise, acquire coal mines, coke plants, including plants for recovery of by-product and to explore prospect work, develop, administer, manage or control.

Sindri Fertilizers and Chemicals (Private) Ltd.

The Sindri Fertilizers was registered on the 18th December, 1951 to carry on all kinds of business relating to fertilizers, heavy chemicals, cement, coke and their by-products and in particular, to carry on the business of manufacturing, storing of fertilizers, etc. The Memorandum of Association also provides the establishment, provision, maintenance, conduct of research laboratories and experimental workshops for scientific and technical research.

Nangal Fertilizers (Private) Ltd.

The control and management of the Nangal Fertilizers Heavy Water Project were formally transferred to Messrs Nangal Fertilizers and Chemicals Private Limited on 27th February, 1956. The object of the Company is to manufacture and to carry on all kinds of business relating to fertilizers, heavy chemicals, heavy water, cement, coke and their by-products and to undertake a project of ammonium nitrate at Nangal with an annual capacity of 17,000 tons of nitrogen in conjunction with the production of Heavy Water.

Heavy Electricals (Private) Ltd.

In pursuance of the recommendations of the Heavy Electrical Equipment Project Enquiry Committee made in March, 1955, the Government of India decided to set up the Heavy Electricals Private Limited at Bhopal on 29th August, 1956 to manufacture heavy electrical equipment with the technical collaboration of Messrs. Associated Electricals Industries Limited of the United Kingdom. The object of the company is to manufacture initially, turbines, generators, transformers, static capacitors, circuit-breakers, switch boards, industrial motors, insulating materials of all varieties, etc.

Neyveli Lignite Corporation (Private) Ltd.

The Corporation was set up on the 14th November, 1956 to take over the Neyveli Lignite Project owned and conducted by the Government of India together with all the rights and liabilities

of the Government of India, so far as they relate to the project. The objects of the Corporation are mining, utilization and processing of lignite, gypsum and other minerals, trade and business of lignite mines.

Hindustan Machine Tools (Private) Ltd.

The Company was set up on 7th February, 1953 to produce initially 4000 lathes per annum in the first stage of production. The other objects are to carry on in the business of iron founders, mechanical engineers, manufacture of all types of implements, machinery, machine tools, small tools, cutting tools and to deal in machinery implements and hardwares of all kinds and the manufacture of milling machines, radial drilling machines, etc.

Bharat Electronics (Private) Ltd.

The Bharat Electronics was formed on 21st April, 1954 with its registered office in Jalahalli near Bangalore to produce electronics, radio, radar equipment and radio tubes and certain components. The other objects of the company are to design, develop and progressively manufacture electronics equipment, such as transmitters, oscillators, amplifiers, surgical, medical and other appliances and instruments intended for electro and other therapy treatment.

Western Shipping Corporation (Private) Ltd.

The Western Shipping Corporation (Private) Limited was set up on the 22nd June, 1956, to purchase, charter, build, take in exchange or hire or acquire steam and other ships or vessels of any description in India and also to establish and operate transport services by water and land between India and other countries of the world.

Eastern Shipping Corporation (Private) Ltd.

The Corporation was set up on 24th March, 1950 in partnership with the Scindia Steam Navigation Company Limited, Bombay who were appointed as its Managing Agents. The object of the Corporation is to purchase, charter, hire or otherwise acquire, sell, exchange, to establish, maintain and operate transport services by water and land between India and other countries of the world.

Government Telephones Board (Private) Ltd.

It was registered as a private limited Company on 11th November, 1940. The objects of the Company as mentioned in the Memorandum of Association are to acquire and hold shares, stocks, debenture bonds, obligations and securities issued by Bombay Telephone Co. Ltd., Bengal Telephone Co. Ltd., and Madras Telephone Co. Ltd., and to coordinate the different telephone companies in India under non-Government management and facilitate their acquisition by the Central Government.

Export Risk Insurance Corporation (Private) Ltd.

On the basis of the recommendations of an expert committee appointed in 1956, the Government decided to set up an Export Risk Insurance Corporation in July, 1957 as a private limited Company. It is intended to offer protection to Indian exporters in respect of certain risks, commercial and political, which are not normally covered by commercial insurance companies. The facilities offered by the Corporation assist the exporters to develop new markets. In setting up the Corporation, the Government have been actuated by the desire to place the Indian exporters on even terms with exporters of other countries who are aided by similar schemes in their countries.

Hindustan Anti-biotics (Private) Ltd.

The Penicillin Factory at Pimpri has been placed under the management of a private limited Company, viz., Hindustan Anti-biotics Limited with effect from 1st June, 1954. The factory commenced regular production from 1st August, 1955.

Hindustan Cables (Private) Ltd.

The Hindustan Cables (Private) Limited was registered in August, 1952 to manufacture various types of communication cables intended to be used for transmission of telephones, telegraph or high frequency signals by electricity, in order

to meet the requirements of the Indian Posts and Telegraph Department. The factory is located at Rupnarayanpur, near Chittaranjan in West Bengal.

National Instruments (Private) Ltd.

The Company was registered on 26th June, 1957. It has been formed as a result of conversion of Central Government departmental undertaking under the control of the Ministry of Commerce and Industry. The factory was founded in 1830 for the maintenance and repair of precision instruments for the use of various departments of the Government of India and the State Governments. The factory now undertakes repairs of aircraft instruments and of all types of electrical instruments as well. Work on the preparation of metals of pressure and vacuum guage has been undertaken during the year.

National Projects Construction Corporation (Private) Ltd.

The Corporation was registered on 9th January, 1957. Its first job is the construction of two aqueducts in the Chambal Canal System. The Corporation would facilitate the maximum utilisation of plant and machinery by transferring equipment from one project to another whenever feasible.

National Industrial Development Corporation (Private) Ltd.

The Corporation was established on 20th October, 1954, mainly as an instrument of Government for securing a balanced and integrated development of industries in both private and public sectors. Its object is primarily to develop all industries, particularly those which are necessary to fill up gaps in the industrial structure. Secondly, it has been set up to act as the agency of Government for the grant of loans to the industries which the Government may desire to assist on account of their special importance to the economy.

Hindustan Insecticides (Private) Ltd.

The factory was established on 1st April, 1954 by the Government at Delhi with the technical and financial assistance of WHO (now UNTAA) and UNICEF in order to carry on the business relating to D.D.T. and its formulations, insecticides, chemicals and their by-products.

State Trading Corporation (Private) Ltd.

The Corporation was set up on 18th May, 1956 to organise and effect exports from and imports into India of all such goods and commodities as the Company may, from time to time determine. It mainly seeks to solve trading problems and difficulties and to utilize existing trade channels in the effort to procure essential imports on an economical basis and to broaden and enlarge the scope for India's exports.

National Research Development Corporation (Private) Ltd.

The Corporation was set up on 31st December, 1953. The main functions of the Corporation are to stimulate development of patents and innovations arising out of researches conducted in research institutions financed out of public funds and where feasible in the public interest all patented innovations from individuals also.

National Small Industries Corporation (Private) Ltd.

In pursuance of the recommendations of the Ford Foundation International Planning Team on Small Scale Industries which came to India, towards the end of 1953, the Corporation was registered as private limited Company on the 4th February, 1955. The objects of the Company are the procurement of Government contracts, primary as well as such contracts for execution by small industrial units; supply of machinery on hire purchase basis to small scale industries; marketing service for the production and construction and management of industrial estates at Okhla and Allahabad.

Nahan Foundry (Private) Ltd.

The Nahan Foundry was incorporated on 20th October, 1952 and the Government of India transferred the Nahan Foundry to the company from 1st January 1953. Its works are laid out for the mass production of cane-crushers, sugar-boiling pans and other miscellaneous

utensils. It is a licencee for the supply of electricity to the town of Nahan. It has also a printing press which meets the entire demands of printing for the foundry.

Hindustan Housing Factory (Private) Ltd.

The Hindustan Housing Factory (Private) Limited was incorporated on 27th January, 1953 in pursuance of an agreement between the Government of India and Messrs. Basakha Singh Wallenborg Limited. The main object of forming the Company was to put to profitable use the fixed assets (valued at Rs. 50 lakhs) of the old Government Housing Prefabricated Factory. Because of shortage of capital and company's continuing to sustain losses, Government's agreement with the firm was terminated at the latter's request and the Government took over the management with effect from 16th August, 1955.

2. BOARD OF DIRECTORS

Hindustan Steel

1. *Appointment*:

The President has a right to appoint all the Directors.

2. *Number*:

The President has a right to determine the number. At present there are 10 Directors.

3. *Qualifications*:

Directors are not required to hold any qualification shares.

4. *Disqualifications*:

The office of a Director shall be vacated if:—

(*a*) he is found to be of unsound mind by a Court of competent jurisdiction, or

(*b*) he is adjudged an insolvent, or

(*c*) he or any firm of which he is a partner or any private Company of which he is a Director, without the sanction of the Company in General Meeting accepts or holds any office of profit under the Company other than that of Manager or General Manager or a legal or technical adviser or a banker, or

(*d*) he absents himself from three consecutive meetings of the Directors or from all meetings of the Directors for a continuous period of three months whichever is longer without leave of absence from the Board of Directors, or

(*e*) he or any firm of which he is a partner or any Company of which he is a member or Director accepts a loan or guarantee from the Company in contravention of Section 295 of the Act, or

(*f*) he acts in contravention of Section 297 of the Act, or

(*g*) he suspends payment to or compounds with his creditors, or

(*h*) he resigns office by notice in writing addressed to the Company or to the Directors.

5. *Remuneration*:

Salaries and allowances are fixed by President.

6. *Tenure*:

Period of office is determined by President.

7. *Powers of Board of Directors*:

1. *General powers of Company vested in Dircetors*: The business of the Company shall be managed by the Directors who may pay all expenses of getting the Company registered and may exercise all such powers and do all such acts and things as the Company is by its Memorandum of Association or otherwise authorized to exercise.

2. *Specific powers given to Directors*:

(*a*) to acquire property;

(*b*) to pay for property in debentures etc;

(*c*) to open accounts with any bank or bankers or with any Company, firm or individual and to pay money into and draw money from any such account from

time to time as the Directors may think fit;

(*d*) to secure contracts by mortgage;

(*e*) to refer to arbitration;

(*f*) to invest and deal with any of the moneys of the Company not immediately required for the purposes thereof, upon such securities and in such manner as they may think fit and from time to time to vary or realise such investments;

(*g*) to give to any Director an interest in any particular business or transaction either by way of commission on the gross expenditure thereon or otherwise or a share in the general profits of the Company, and such interest, commission or share of profits shall be treated as a part of the working expenses of the Company;

(*h*) to give bonus;

(*i*) to create provident fund;

(*j*) to create depreciation and other funds;

(*k*) to appoint officers on the maximum pay of less than Rs. 2,000/-;

(*l*) to establish local Boards;

(*m*) to enter into contracts;

(*n*) the Directors may, from time to time, pay to the members such interim dividends as in their judgment the position of the Company justifies.

(*o*) the Directors shall make out and attach to every balance sheet a report with respect to the state of the Company's affairs, the amount, if any, which they recommend should be paid by way of dividend and the amount, if any, which they propose to carry to the Reserve Fund, General Reserve or Reserve Account shown specifically on the balance sheet or to a Reserve Fund, General Reserve or Reserve Account to be shown specifically in a subsequent balance-sheet.

8. *Chairman*:

The Chairman is appointed by the President of India.

9. *Powers of Chairman*:

Chairman will reserve for the decision of the President any proposals or decisions of the Directors in respect of following:

(*a*) any programme of capital expenditure for an amount exceeding Rs. 40 lakhs.

(*b*) winding up of Company;

(*c*) any matter which in the opinion of the Director be of such importance as to be reserved for President's approval;

(*d*) any other matter which in the opinion of the Chairman be of such importance as to be reserved for President's approval.

National Coal Development Corporation

1. *Appointment*:

President has the power to appoint Directors.

2. *Number*:

Number of Directors is determined by President. The present number is 10.

3. *Qualification*:

Share qualification is not required.

4. *Disqualification*:

Same as in case of Hindustan Steel (Private) Limited.

5. *Tenure*:

At every annual general meeting of the Company the Directors except the Chairman and Managing Director shall retire from office. The Chairman and Managing Director retire only on ceasing to hold the office of the Chairman and Managing Director respectively. A retiring Director is eligible for reappointment.

6. *Remuneration*:

Salary and allowances are determined by President.

7. *Specific Powers*:

The Directors have the specific powers:

1. to acquire property;

2. to undertake works of capital nature upto Rs. 20 lakhs;
3. to pay for property in debentures etc;
4. to secure contracts by mortgage;
5. to appoint officers on a salary of less than Rs. 2,000 per month.
6. to appoint trustees;
7. to invest moneys in the Reserve Bank of India or in such securities as may be approved by the President;
8. to give security by way of indemnity;
9. to give commission on the profits of any particular business transaction subject to President's approval;
10. to give bonus;
11. to create Provident Fund subject to approval of President;
12. to establish Local Boards for managing any of the affairs of the Company;
13. to sub-delegate powers subject to ultimate control and authority being retained by them; and
14. to create Reserve Fund, Contingency Fund or Depreciation Fund, subject to such directions as may from time to time be issued by President.

8. *Chairman*:

The President may nominate a Director as Chairman of the Director's meetings and determine the period for which he is to hold office. If no such Chairman is nominated, or if at any meeting the Chairman is not present within 15 minutes after the time for holding the same, the Directors present may choose one of their number to be Chairman of the meeting.

The Chairman shall reserve for the decision of the Central Government any proposals or decisions of the Board of Directors or any matter brought before the Board which raises, in the opinion of the Chairman, an important issue and which is on that account fit to be reserved for the decision of the Central Government and no decision on such an important issue shall be taken in the absence of the Chairman appointed by the President.

In respect of matters reserved by the Chairman for decision of the Central Government, if the Central Government's views be not received within a period of two months, the Directors shall be entitled to act in accordance with the proposal or decision without further reference to the Central Government.

9. *Managing Director*:

(1) The President may appoint one of the Directors to be the Managing Director who shall be a whole time employee of the Company or a Board of Management consisting of two or more Directors, for the conduct of management of the business of the Company subject to the control and supervision of the Board of Directors. The Managing Director or the Board of Management so appointed may be authorised by the Board to exercise such powers and discretion in relation to the affairs of the Company as are specifically delegated to him/it by the Board and are not required to be done by the Board of Directors or the Company at the general meeting under the Act.

(2) The Managing Director shall be paid such salary and allowances as may be fixed by the President.

Powers of the Board of Directors

The Directors have the specific power to :—

1. acquire property;
2. undertake works of capital nature up to Rs. 20 lakshs;
3. pay for property in debentures etc;
4. secure contracts by mortgage;
5. appoint officers on a salary of less than Rs. 2,000/- per month;
6. appoint trustees;
7. invest moneys in the Reserve Bank of India or in such securities as may be approved by the President;

8. give security by way of indemnity;
9. give commission on the profits of any particular business transaction subject to President's approval;
10. give bonus;
11. create Provident Fund subject to approval of President;
12. establish Local Boards for managing any of the affairs of the Company;
13. sub-delegate powers subject to ultimate control and authority being retained by them; and
14. create Reserve Fund, Contingency Fund or Depreciation Fund subject to such directions as may from time to time be issued by President.

Sindri Fertilizers and Chemicals

1. *Appointment*:

Same as in National Coal Development Corporation.

2. *Number*:

There are 11 Directors including Chairman and Managing Director.

3. *Qualifications*
4. *Disqualifications*
5. *Tenure*
6. *Remuneration*

Same as in National Coal Development Corporation.

7. *Powers of Board of Directors*:

Same as in National Coal Development Corporation with the following exception:

The Board of Directors have the power to authorise the undertaking of works of a capital nature subject to the condition that all cases involving a capital expenditure exceeding Rs. 10 lakhs shall be referred to President for his approval before authorisation.

8. *Chairman and Managing Director*:

Same as in National Coal Development Corporation with the exception that "Powers of Chairman" have not been defined.

Nangal Fertilizers and Chemicals

There are 10 Directors. Other provisions are the same as in Sindri Fertilizers and Chemicals.

The powers of the Chairman have been defined as follows:

"The Chairman shall reserve for the decision of the Central Government any proposals brought before the Board which raises, in the opinion of the Chairman, an important issue and which is on that account fit to be reserved for the decision of the Central Government."

Heavy Electricals

Same as in Nangal Fertilisers and Chemicals;

Neyveli Lignite Corporation

Same as in Nangal Fertilisers and Chemicals;

Hindustan Machine Tools

The Articles of Association provide that the President has a right to appoint all the Directors with the exception of two Directors to be appointed by the Oerlikon Machine Tools Works of Switzerland. However, on the basis of new agreement, the capital participation of Messrs. Oerlikon Machine Tool Works has been terminated and the Government of India have bought up the shares owned by the above firm. Revised agreements have been concluded on 20th July, 1956 whereby the Swiss firm also ceases to have the right to nominate two Directors on the Board. The present number of Directors is 9.

Other conditions are same as in Sindri Fertilisers and Chemicals. Here again "Powers of Chairman" are not defined.

Bharat Electronics

There are 9 Directors including the Chairman and the Managing Director.

Other conditions are same as in Sindri Fertilisers and Chemicals with the exception that "Directors appointed by President shall hold office until removed by him." Thus they do not retire every year as provided in the Articles of Association of Sindri Fertilisers and Chemicals.

Powers of Chairman are not defined.

Western Shipping Corporation

1. *Appointment*:

President has the power to appoint Directors.

2. *Number*:

Number of Directors is 6.

3. *Qualifications* } No mention in the Articles of Association.
4. *Disqualifications* }

5. *Tenure*:

The President will determine the period of office.

6. *Remuneration*:

It is determined by the President from time to time. A Director being a Government servant is not entitled to any remuneration unless otherwise provided.

7. *Powers of the Board of Directors* :

Specific powers are not defined in the Articles of Association.

8. *Chairman*:

Central Government shall appoint one of the Directors as Chairman of the Board.

The Chairman may, on his own, and shall when requested, by the Managing Director in writing, reserve for the consideration of the Central Government the following matters relating to the working of the Company.

(*a*) calling up the unpaid capital or increasing the authorised capital of the Company or issuing of any unissued shares forming part of the original authorised capital or forming the whole or part of any increase of capital in the event of any increase in capital beyond the original authorised capital of Rs. 10 crores;

(*b*) (*i*) any proposal to borrow at a time exceeding Rs. 15 lakhs;

(*ii*) any proposal to borrow which will increase the aggregate of such individual borrowings to an amount in excess of 25 per cent of the then paid-up capital of the Company, or Rs. one crore whichever is less;

(*iii*) Any proposal to borrow at a rate of interest exceeding the Reserve Bank rate by more than 1 per cent per annum, if the Managing Director considers that such a rate of interest is unduly high:

(*iv*) any proposal for action relating to the reduction of capital.

(*v*) any proposal for investment in a particular type of security or shares, if such investment exceeds Rs. 10 lakhs.

(*c*) issue of Debentures ;

(*d*) acquisition, construction or sale of vessels involving an amount exceeding Rs. 10 lakhs;

(*e*) any other single item of expenditure exceeding Rs. 10 lakhs;

(*f*) finding up of the Company;

(*g*) any important matter relating to the Company's establishment; and

(*h*) any other matter which in his opinion involves an important issue of general policy.

No action shall be taken by the Company in respect of any matter reserved for the consideration of the Central Government as aforesaid until its approval to the same has been obtained.

9. *Managing Director*:

Central Government may appoint one of the Directors as Managing Director. The general management of the business of the Company, subject to the control and supervision of the Board, shall be in the hands of the Managing Director of the Company who shall have power and authority on bahalf of the Company to make all purchases and sales and to enter into all contracts and to do all other things usually necessary or desirable in the management of the affairs and business of the Company or in carrying out its objects and shall, subject to such control and supervision of the Board, have power to appoint and employ in or for the purposes of the transaction and management of the affairs and business of the Company or otherwise, for the purposes thereof and from time to time, to remove or suspend such solicitors, managers, secretaries, experts, officers, captains, engineers, clerks, muccadans and other employees as they shall think proper, with such powers and

duties and upon such terms as to duration of employment, remuneration or otherwise as they shall think fit; provided that the Managing Director shall not except with the previous approval of the Board exercise any power under this Article in respect of any of the matters reserved for the consideration of the Central Government.

Eastern Shipping Corporation

Details are not available as the Articles of Association are under revision consequent on the termination of Managing Agency of Scindias. At present there are 7 Directors.

Government Telephones Board

1. *Appointment*:

The founder has a right to appoint Directors.

2. *Number*:

At present there are 5 Directors.

3. *Qualifications*:

The Directors are not required to hold any qualification shares.

4. *Disqualifications*:

Same as in case of other Companies.

5. *Tenure*:

The founder may by notice in writing to the Company remove any Director.

6. *Remuneration*:

The founder may fix the remuneration from time to time.

7. *Powers*:

The Articles of Association provide that Articles 71, 74 and 75 of Table A of Companies Act, 1913 shall apply.

8. *Chairman*:

The founder may appoint a Director as Chairman and determine the period for which he is to hold office.

Export Risk Insurance Corporation

1. *Appointment*:

The President is authorised to nominate Directors.

2. *Number*: Seven.

3. *Qualifications*:

No share qualification is required.

4. *Disqualifications*: Not specified.

5. *Tenure*:

The President may at any time remove any Director.

6. *Remuneration*:

The remuneration shall be determined by President from time to time. The remuneration of the Directors shall, in so far as it consists of a monthly payment, be deemed to accrue from day to day. In addition, they may be paid all travelling, hotel and other expenses properly incurred by them in connection with the meetings.

7. *Powers*:

(1) The Board of Directors may make bye-laws in respect of the following matters.

(*a*) duties and conduct of officers, employees and agents.

(*b*) the matter to be referred to the Advisory Council, the calling of meeting of Advisory Council and generally all matters relating to Advisory Council.

(2) The Board of Directors shall have the power to:

(*a*) fix maximum credit and contract limits up to which risk on any individual buyer can be covered;

(*b*) fix limits up to which goods can be exported by an exporter to buyers without their limit being approved by the Corporation; and

(*c*) fix a limit up to which a contract can be entered into with an exporter.

(3) The Directors may borrow from time to time at their discretion provided that the total amount of money so borrowed will not exceed five times the paid-up capital of the Corporation.

Hindustan Cables

There are eleven Directors. Other provisions are the same as in Sindri Fertilisers and Chemicals.

National Instruments (Private) Ltd.

There are ten Directors. Other provisions are the same as in National Coal Development Corporation with the following exception with regard to the powers of the Directors:

(1) All cases involving a capital expenditure exceeding Rs. 5 lakhs shall be referred to the President for his approval before authorisation.

(2) No appointment, the maximum pay of which is Rs. 1,000/- or more per mensem shall be made without the prior approval of the President.

National Projects Construction Corporation

There are ten Directors and they hold office until removed by the President. Other provisions are the same as in case of Sindri Fertilisers and Chemicals with the following exception;

The first Managing Director has been appointed only for 3 years by the President but the subsequent appointment of the Managing Director shall be made by the Board of Directors.

National Industrial Development Corporation

1. *Appointment*:

The President is authorised to appoint all the Directors.

2. *Number*:

There are 15 Directors.

3. *Qualifications*:

Same as in Hindustan Steel.

4. *Disqualifications*:

Same as in Hindustan Steel.

5. *Tenure*:

The President is entitled from time to time to remove any Director.

6. *Remuneration*:

Same as in Hindustan Steel.

7. *Powers*:

Except the general powers, no special powers have been laid down in the Articles of Association.

8. *Chairman*:

The Chairman is appointed by the President. He shall reserve for the approval of the President any proposals or decisions of the Directors in respect of the following matters, namely,

(*a*) increasing or reducing the issued capital of the Company;

(*b*) granting by the Company of a loan or the giving of a guarantee or any other financial assistance to any one particular concern of an amount exceeding Rs. 1 crore;

(*c*) winding up of the Company; and

(*d*) any other matter which in the opinion of the Chairman be of such importance as to be reserved for the approval of the President.

Hindustan Insecticides

The present number of Directors is nine. Other provisions are the same as in Sindri Fertilisers and Chemicals with the exception of the following:—

The Board of Directors have the power to authorise the undertaking of works of a capital nature subject to the condition that all cases Involving a capital expenditure exceeding Rs. 5 lakhs shall be referred to the President for his approval before authorisation.

State Trading Corporation

The present number of Directors is seven. The Articles of Association do not provide "Disqualification of Directors." Other provisions with regard to appointment, qualifications and tenure are the same as in case of Sindri Fertilisers and Chemicals.

The remuneration of the Directors, according to the Articles of Association, shall in so far as it consists of a monthly payment, be deemed to accrue from day to day. In addition, the Directors may also be paid all travelling, hotel and other expenses properly incurred by them in attending the meetings.

Powers of the Board

No specific powers of the Board are provided in the Articles of Association.

The general powers are:—

(*a*) The Board of Directors may appoint a Secretary (a Director may be appointed as Secretary) for such time and at such remuneration and conditions as they think fit. He can also be removed by the Board.

(*b*) The Board may before recommending any dividend set aside out of the profits of the Company such sums as it thinks proper as a reserve or reserves.

There is provision for the appointment of Chairman and Managing Director by the President but there is no mention about their powers, tenure, salaries or allowances etc.

National Research Development Corporation

1. *Appointment*:

It is provided in the Articles of Association that the President shall appoint all the Directors from amongst persons having had experience in science, technology, industry, finance, commerce, administration or the acquisition or disposal of rights in inventions but no persons who is a Member of Parliament or State Legislature shall be so appointed.

2. *Number*: The present number of Directors is seven.

3. *Qualifications*
4. *Disqualifications*
5. *Remuneration*

} Same as in case of other Government Companies.

6. *Tenure*: The Directors shall hold office for a period of 3 years or such shorter period as the President may specify.

7. *Powers*:

(*a*) to acquire property;

(*b*) to authorise the undertaking of works of a capital nature, subject to the condition that all cases involving a capital expenditure of exceeding Rs. 5 lakhs shall be referred to the President for his approval before authorisation;

(*c*) to appoint officers etc., provided that no appointment, the maximum pay of which is Rs. 2,000/- per month or more shall be made without the prior approval of the President;

(*d*) to appoint trustees ;

(*e*) to invest moneys ;

(*f*) to give percentage ;

(*g*) to give bonus ;

(*h*) Subject to the approval of the President, to set aside such portion of the profit of the Company as they may think fit, to form a fund to provide for such pensions, gratuities or compensations or to create any provident or benefit fund in such manner as the Directors may deem fit ;

(*i*) to establish local board ; and

(*j*) to sub-delegate powers.

8. *Chairman*: Chairman is appointed by the President for a period to be determined by the latter.

9. *Managing Director*: On the advice of the Board of Directors the President may appoint one of the Directors to be Managing Director and is authorised to exercise such powers as are delegated by the Board. He will be paid such salary and allowances as may be fixed by Directors. It is also provided in the Articles of Association that the Managing Director is not authorised to

(1) make calls on shareholders in respect of moneys unpaid on shares;

(2) borrow moneys except limit fixed by the Directors at a Board meeting;

(3) invest the funds of the Company; and

(4) make loans.

National Small Industries Corporation

The number of Directors in the holding Company is nine. In the other four subsidiary Companies the number of Directors is four. The other provisions with regard to Directors of the holding Company are the same as in case of Nangal Fertilisers with the following exceptions:

Specific powers of the Board are not mentioned in the Articles of Association.

Chairman: Chairman is appointed by the President. According to the Articles of Association, the Chairman shall reserve for the approval of the President some proposals or decisions as mentioned in the Articles of Association of the National Industrial Development Corporation with the following exception:

President's approval is essential in respect of granting by the Company of a loan or the giving of a guarantee or any other financial assistance to any one particular concern of an amount exceeding Rs. 2.5 lakhs (in case of National Industrial Development Corporation the limit is Rs. 1 crore).

Managing Director: Same as in case of Sindri Fertilisers.

NOTE: The Managing Director of the holding Company is also Managing Director of the four subsidiary Companies established in Delhi, Bombay Calcutta and Madras.

Nahan Foundry

There are at present 8 Directors. Provisions in the Articles of Association are the same as in case of Sindri Fertilisers and Chemicals with the following exceptions:

(1) The Directors appointed by President hold office until removed by him.

(2) The Board is authorised to undertake works of a capital nature subject to the condition that all cases involving a capital expenditure exceeding Rs. 50,000, shall be referred to President for his approval before authorisation.

(3) The Board is authorised to appoint or remove any officer provided that his maximum pay is less than Rs. 500/- per month.

3—FINANCE

Hindustan Steel (Private) Ltd.

General: The authorised capital of the Company is Rs. 300 crores. The Government have so far advanced loans amounting to Rs. 19 crores to the Rourkela Steel Project. Provision of a further sum of Rs. 2.5 crores as loan and Rs. 9 crores as share capital has been made in the current year's Budget. The total cost of the plant is estimated at Rs. 170 crores. The cost of the Bhilai plant is estimated at Rs. 131 crores. So far Rs. 5.5 crores have been spent on the project. A provision of Rs. 63.33 crores has been made in Budget Estimates 1957-58. The Durgapur Steel Works is estimated to cost Rs. 138 crores (excluding the township) out of which the cost of plant and equipment from the U.K. will be about Rs. 85 crores. A sum of Rs. 9.5 crores has so far been spent on the Project. Total expenditure in 1956-57 is estimated at Rs. 16 crores. A provision of Rs. 35.5 crores has been made in the Budget Estimates 1957-58.

Borrowing Powers: The Directors may from time to time borrow, subject to approval of President, any sum of money for the purposes of the Company.

National Coal Development Corporation (Private) Ltd.

General: The Corporation is registered with an authorised capital of Rs. 50 crores entirely owned by the Government of India. The subscribed capital has been fixed at Rs. 15 crores. The Government have transferred the management and membership of the Government Collieries including all assets and liabilities to the Corporation with effect from 1st October, 1956 and necessary funds have been made available to the Corporation for its further requirements during the current year.

Borrowing Powers: Same as in case of Hindustan Steel (Private) Ltd.

Sindri Fertilisers & Chemicals (Private) Ltd.

General: The Company was registered with an authorised capital of Rs. 30 crores wholly owned by Central Government. The latter has subscribed Rs. 17 crores towards the share capital. The Company entered into a contract with Messrs. Montecantini Mialan, Italy, for the setting up of 2 Nitrogenous Fertilisers. The Government of India have decided to advance a sum of Rs. 7 crores to the

Sindri Fertilisers & Chemicals for implementing the Scheme and a balance of Rs. 4 crores have to be met by Company from its resources. The total governmental expenditure from 1956-57 onward will be roughly Rs. 4.42 crores.

Borrowing: Same as in case of Hindustan Steel (Private) Ltd.

Nangal Fertilisers & Chemicals (Private) Ltd.

General: The Company has been set up with an authorised capital of Rs. 30 crores. This is a cent per cent Central Government concern. Its subscribed and paid-up capital is Rs. 2,88.84 lakhs. Provision of Rs. 179 lakhs has been made in the revised Estimate 1956-57 and Rs. 200 lakhs in the Budget Estimate 1957-58.

Borrowing: Same as in case of Hindustan Steel (Private) Limited.

Heavy Electricals (Private) Ltd.

General: The authorised capital of the Company is Rs. 30 crores. The assets and liabilities of the Government of India in respect of Heavy Electrical Equipment Project have been transferred from 1st October, 1956. In the Budget Estimates for 1956-57 a provision of Rs. 36.5 lakhs was made for this project. After the formation of the Company an amount of Rs. 24 lakhs is being made available to the Company as share capital. Expenditure during 1957-58 on this project is estimated to Rs. 1 crore and provision has been made in the Budget Estimates.

Borrowing: Same as in case of Hindustan Steel (Private) Limited.

Neyveli Lignite Corporation (Private) Ltd.

General: The authorised share capital of the Company is Rs. 25 crores. The capital subscribed by the Central Government amounts to Rs. 6,77 lakhs. Govt. have accepted in principle the execution of the Integrated Lignite Project at an estimated cost of Rs. 68.8 crores. The revised Estimates for 1956-57 provide for Rs. 4.24 lakhs and the Budget Estimates for 1957-58 provide for Rs. 4,00 lakhs.

Borrowing: Same as in Hindustan Steel (Private) Ltd.

Hindustan Machine Tools (Private) Ltd.

General: The authorised capital of the Company is Rs. 12 crores and the subscribed capital Rs. 390 lakhs wholly subscribed by Government. Up to last year, out of the share capital of Rs. 390 lakhs, Government share amounted to Rs. 360 lakhs and the balance subscribed by Messrs. Oerlikons, the technical consultants of the factory. It was decided during the year to terminate the capital participation of Messrs. Oerlikons by purchasing the shares owned by them in the Company. However, Messrs. Oerlikons continue as Technical consultants to the Factory. A provision of Rs. 120 lakhs (Rs. 75 lakhs for loan & Rs. 45 lakhs for share capital) has been made in the Revised Estimates 1956-57 and Rs. 80 lakhs in the Budget Estimate 1957-58.

Borrowing: Same as in case of Hindustan Steel (Private) Ltd.

Bharat Electronics (Private) Ltd.

General: The concern is registered with an authorised capital of Rs. 10 crores to be subscribed by the Government of India.

The authorised capital comprises of:—

(*a*) investment on capital assets excluding payment to the French collaborating firm—Rs. 7 crores ; and

(*b*) working capital paid-up Capital Rs. 343.75 lakhs Govt's. share 100%—Rs. 2.5 crores. Out of this the Government of India have subscribed Rs. 1.88 crores up to the end of 1955-56.

A provision of Rs. 1.56 crores under revised Estimate 1956-57 and Rs. 1.25 crores under Budget Estimates 1957-58 has been made in the General budget towards investment in the share capital of the Company.

Borrowing: Same as in case of Hindustan Steel (Private) Limited.

Western Shipping Corporation (Pvt.) Ltd.

General: The authorised capital of the Company is Rs. 10 crores with initial paid-up capital of about Rs. 2.7 crores.

The Corporation has placed building orders for ships in India and abroad. The provision of Rs. 3.5 crores in Revised Estimates 1956-57 and Rs. 2 crores in budget Estimates 1957-58 will be utilised to meet the commitments in this regard.

Borrowing: The Articles of Association provide that the Chairman of the Board of Directors may, on his own and shall when requested by the Managing Director in writing, reserve for the consideration of the Central Govt. any proposal (a) to borrow at a time exceeding Rs. 15 lakhs; (*b*) to borrow at a rate of interest exceeding to the Reserve Bank rate by more than 1 per cent per annum, if the Managing Director considers that such a rate of interest is unduly high; and (*c*) to borrow which will increase the aggregate of such individual borrowings to an amount in excess of 25 per cent of the then paid-up capital of the Company or Rs. one crore whichever is less.

Eastern Shipping Corporation (Private)Ltd.

General: The authorised capital of the Corporation is Rs. 10 crores. The subscribed capital of the Corporation is Rs. 5.5 crores. The Scindia Steam Navigation Company had contributed 26% of the capital. Under the Indian Companies Act 1956 no Company which is managed by Managing Agents can itself function as Managing Agent of another Company. As the Scindias were unwilling to drop their own managing agency they could not function as Managing Agents of the Eastern Shipping Corporation beyond 15th August, 1956 from which date their Managing Agency stood terminated. It has been decided by Govt. that the shareholding of Rs. 1.43 crores of Scindias in the Corporation should be repatriated to them at par value. The provision of Rs. 74 lakhs in the revised Estimates for 1956-57 will be utilised to meet part of the Commitment, the balance of which (Rs. 69 lakhs) will be paid to the company in 1957-58 from the sum of Rs. 1.20 crores provided in the budget for that year.

Borrowing: The Articles of Association are being revised by the Govt. of India.

Government Telephones Board (Pvt.) Ltd.

General: The Company was registered with an authorised capital of Rs. 10 crores. The paid-up capital of the Company is Rs. 4.75 lakhs.

Borrowing: The Articles of Association provide that subject to the approval of the founder, the Directors may from time to time at their discretion borrow or secure the payment of any sum or sums for the purposes of the Company.

Exports Risk Insurance Corporation (Private) Ltd.

General: The Corporation is registered with a authorised capital of Rs. 5 crores. All the shares of the Corporation are owned by Central Government. The paid-up capital of the Corporation is Rs. 50 lakhs.

Borrowing: The Directors may, from time to time, at their discretion accept deposits, raise or borrow or secure payments of any sum or sums of money for the purpose of the Corporation provided that the total amount of money so borrowed will not exceed five times the paid-up capital of the Corporation.

Hindustan Antibiotics (Private) Ltd.

General: The authorised capital of the Company is Rs. 4 crores divided into 40,000 shares of Rs. 100 each. A sum of Rs. 194.75 lakhs has been paid by the Governmant of India by way of share capital up to the end of 1955-56 including the value of assets transferred. Taking into account the value of UNICEF Plant and machinery received upto 1955-56, for which shares have been issued and amounts paid in cash, the total share capital stands at about Rs. 2.40 lakhs. A provision of Rs. 50 lakhs each has been made in the revised Estimates 1956-57 and Budget Estimates 1957-58.

Borrowing: Same as in case of Hindustan Steel (Private) Limited

Hindustan Cables (Private) Ltd.

General: The Company's authorised capital is Rs. 3 crores and the subscribed capital Rs. 1.25 crores. A provision of Rs. 10 lakhs in the revised Estimates for 1956-57 and of Rs. 20 lakhs in the Budget Estimates for 1957-58 has been made as part of the Rs. 50 lakhs allocated for the manufacture of coaxial cables

during the Second Plan. The above amount will be given as loan. Total investment upto 1955-56 amounts to Rs. 164 lakhs which includes Rs. 125 lakhs as share capital and Rs. 39 lakhs as debenture loan.

Borrowing: Same as in case of Hindustan Steel (Private) Limited.

National Instruments (Private) Ltd.

General: The authorised capital of the Company is Rs. 3 crores. It is provided in the Articles of Association that no part of the funds of the Company shall be employed in the purchase of or in loans upon the security of the Company's shares.

Borrowing: Same as in case of the Hindustan Steel (Private) Limited.

National Projects Construction Corporation (Private) Limited.

General: The Corporation is registered as a private Company with an authorised capital of Rs. 2 crores. The States of Assam, Bihar, Orissa, Rajasthan, Madhya Pradesh, Kerala and Jammu & Kashmir have agreed to participate in the Corporation. The capital will be subscribed by the participating Governments. The funds provided for the various projects of a State Govt. would be at the disposal of the agency when entrusted with their execution.

Borrowing: Same as in case of Hindustan Steel (Private). Ltd.

National Industrial Development Corporatoin (Private) Ltd.

General: It is registered with an authorised capital of Rs. 1 crores of which Rs. 10 lakhs have been subscribed. The finances required by the Corporation are provided for by the Govt. in the shape of grants and loans. A provision of Rs. 1.49 crores and Rs. 4.50 crores has been made under Revised Estimates 1956-57 and Budget Estimates 1957-58 respectively. The enhanced provision for 1957-58 reflects the progress made by the Corporation both in regard to new industrial projects and in granting loan assistance to the jute and cotton textile industries.

Borrowing: The Directors may from time to time at their discretion raise or borrow or secure the payment of any sum or sums of money for the purposes of the Company.

Hindustan Insecticides (Private) Ltd.

General: It is registered as a fully owned Central Govt. Company with an authorised capital of Rs. 1 crore of which Rs. 97 lakhs has been subscribed. The contribution of Govt. of India in the establishment of factory is estimated at Rs. 38 lakhs. The value of plant and equipment supplied by UNICEF is estimated at Rs. 11.90 lakhs and the cost of technical assistance rendered by UNTTA is estimated at Rs. 4.76 lakhs. The Second D.D.T. factory at Alwaye will cost about Rs. 79 lakhs. The entire cost will be met by the Govt. of India. A provision of Rs. 40 lakhs has been made in the Budget Estimates 1957-58.

Borrowing: Same as in case of Hindustan Steel (Private) Limited.

State Trading Corporation of India (Private) Ltd.

General: The authorised capital of the Corporation is Rs. 1 crore. Rupees 10 lakhs have been subscribed and paid-up. The paid-up capital has been raised to Rs. 1 crore during the current financial year. Provision for an additional amount of Rs. 90 lakhs has been made in the revised Estimates 1956-57. Due to temporary shortages of Rupee balance by some countries the Corporation has to grant advances to enable them to make payments for their purchases from India. With this end in view a loan of Rs. 5 crores was given to the Corporation. The amount was raised to Rs. 7.5 crores in view of its larger needs. It is proposed to give a further loan of Rs. 2.5 crores to the Corporation.

Borrowing: The Directors may from time to time at their discretion raise or borrow or secure the payment of any sum or sums of money for the purpose of the Company.

National Research Development Corporation. (Private) Ltd.

General: The Corporation is registered with an authorised capital of Rs. 1 crore. Total investments in the form of share capital so far is Rs. 10 lakhs. Govt. have

agreed to grant loans to the Corporation on long term basis for its various schemes. A provision of Rs. 10 lakhs has been made in Budget Estimates 1957-58 for loan to the Corporation.

It is provided that no dividends in any form or shape shall be paid to members so long as licence granted by the Govt. of India under Section 26 of the Companies Act remains in force and is not rescinded and withdrawn.

Borrowing: Same as in the case of Hindustan Steel (Private) Limited.

National Small Industries Corporation (Private) Ltd.

General: Originally the authorised capital of the Corporation was fixed at Rs. 10 lakhs and the issued capital at Rs. 2 lakhs. However, vide resolution passed by the shareholders at an Extra-ordinary General Meeting held on 7th January, 1957, the authorised capital of the Company has been raised to Rs. 50 lakhs. Non self-supporting working expenses have to be subsidised by Government. Provision of Rs. 67 lakhs in Revised Estimates 1956-57 and Rs. 65 lakhs in Budget Estimates 1957-58 has been made under loans for financing the various activities of the Corporation.

Borrowing: The Directors may from time to time at their discretion raise or borrow or secure the payment of any sum or sums of money for the purposes of the Company.

Nahan Foundry (Private) Ltd.

General: The Company was registered with an authorised capital of Rs. 1 crore. The Govt. of India holds the shares of the Company of the value of Rs. 40 lakhs. A provision of Rs. 75,000 was made in the Revised Estimates 1955-56. and Rs. 2 lakhs were provided in the Budget Estimates 1956-57 for advancing loans to the Foundry for meeting their expenses and other urgent demands during the off season.

Borrowing: Same as in case of Hindustan Steel (Private) Limited.

Hindustan Housing Factory (Private) Ltd.

General: The Government's share of loss is restricted to Rs. 5 lakhs in accordance with the terms of the Government's termination agreement with B.S.W. Ltd. The expert committee which was appointed to examine the future working of the factory have recommended that the factory should be provided loans to the extent of Rs. 30 to 40 lakhs for use as working capital. The factory has so far been granted loans to the extent of Rs. 29.12 lakhs for the purpose of meeting the liabilities of the previous management and for use as working capital. A provision of Rs. 5 lakhs has been made in Budget Estimates 1957-58 to provide additional working capital to the factory. A provision of Rs. 1 lakh has been made in Budget Estimates 1957-58 for improvements and additions to the capital assets of the factory.

Borrowing: The Articles of Association are under revision.

4. PARLIAMENTARY CONTROL

Parliamentary Control over Government Companies is exercised by any of the following methods:—

1. questions ;
2. debates on the annual demand for grants of the various Ministries; and
3. annual Reports on Government Companies under Section 639 of the Companies Act, 1956.
4. Public Accounts Committee and the Estimates Committee Reports.

1. *Questions*:

An analysis of the questions asked in the Lok Sabha during the last four years (1953-56) on the State undertakings of the Company type shows that as many as 350 questions were admitted out of which about 100 questions were roughly on policy matters. These include queries on :

(*a*) reasons for the Ministers being appointed as Chairmen of State enterprises ;

(*b*) publishing annual reports;

(*c*) agreements with foreign firms for setting up of various plants;

(*d*) action taken on the reports of the Public Accounts Committee and the Estimates Committee;

(*e*) procedure for selection of personnel, etc.

Again, about 45 questions were asked on labour problems including minimum wages, staff quarters, water supply, training, bonus, compensation for loss of life, etc. The rest of the questions were asked on production figures, cost of production of manufactured commodities and other miscellaneous items. This shows that the legislature has taken quite a keen interest on the working of various State undertakings.

2. *Debates*:

The important occasion for debates are the annual Demand for Grants of the various Ministries, motions moved by private members or granting half-hour time for discussion of some action or working of a particular industry. During the last four years, thrice the members have tabled private resolutions in Parliament on the management and working of State enterprises.

3. *Annual Report*:

The annual reports on the working of each Government Company are made available to members of legislature under Section 639 of Companies Act, 1956. It provides:

"In addition to the general annual report referred to in section 638, the Central Government shall cause an annual report on the working and affairs of each Govt. Company to be prepared and laid before both Houses of Parliament, together with a copy of the audit report and any comments upon, or supplement, to, the audit report, made by the Comptroller and Auditor-General of India."

"Where any State Government is a member of a Government Company, the annual report on the working and affairs of the Company, the audit report, and the comments upon or supplement to the audit report referred to in sub-section (I), shall be placed by the State Government before the State Legislature or where the State Legislature has two Houses, before both Houses of that Legislatures."

This offers regular opportunities to the Legislature to take stock of its operations.

4. *The Public Accounts and the Estimates Committees*:

Parliament provides control also through the scrutiny of its existing committees—Public Accounts Committee and the Estimates Committee. These Committees have already examined a good number of companies and have given valuable reports on their working.

5. AUDIT AND GOVERNMENT COMPANIES

1. Once at least in every year the accounts of the Company are balanced and audited and the correctness of the profit and loss account and balance sheet ascertained by the Auditors.

2. (*a*) The Auditor/Auditors of the Company are appointed or re-appointed by the Central Government on the advice of the Comptroller and Auditor-General of India.

(*b*) The Comptroller and Auditor General of India has the power:

(*i*) to direct the manner in which the Company's accounts shall be audited by the auditor/auditors and to give such auditor/auditors instructions in regard to any matter relating to the performance of his/their functions as such.

(*ii*) to conduct a supplementary or test audit of the Company's accounts by such person/persons as he may authorise in this behalf and for the purpose of such audit, to have access, at all reasonable times, to all Accounts, Accounts Books, Vouchers, Documents and other papers of the Company and to require information or additional information to be furnished to any person or persons and in such form as the Comptroller

and Auditor-General may, by general or special order, direct.

(*c*) The Auditor/Auditors aforesaid shall submit a copy of his/their audit report to the Comptroller and Auditor-General of India who has the right to comment upon or supplement the audit report in such manner as he may think fit.

(*d*) Any such comment upon or supplement to the Audit Report shall be placed before the annual general meeting of the Company at the same time and in the same manner as the audit report.

3. The Auditors of the Company are entitled to receive notice of and to attend any General Meeting of the Company at which any accounts which have been examined or reported on by them are to be laid before the Company and may make any statement or explanation they desire with respect to the accounts.

6. THE CENTRAL CO-ORDINATING COMMITTEE

As a result of the increased importance of the public sector, the Commerce and Industry Ministry, which is largely responsible for the administration of various projects, has constituted a Co-ordinating Committee, in September, 1957, with the Minister for Commerce and Industry as Chairman, for the purpose of keeping a constant and continuous watch over their progress. The other members of the Committee are:

1. The Minister for Industries;
2. Dy. Minister for Commerce and Industry;
3. Secretary, Ministry of Commerce and Industry;
4. Chairman of all the Boards of Directors of Government Industrial Projects.
5. Managing Directors of all the Boards of Directors of Government Industrial Projects.
6. Joint Secretaries in charge of all the Projects.
7. Financial representatives of the Boards of Directors of Government Industrial Projects.

The Committee is intended to serve as a "clearing house of all important and major problems coming up before each of the units." This body will make a continuous review in a business-like manner of the production, sales, purchase and other technical programmes. It will work as a co-ordinating and guiding link between the industrial projects and the Government. Specifically, the functions of the Committee are:—

(*a*) to review the progress of all projects;

(*b*) to co-ordinate all training and production programmes of different undertakings;

(*c*) to discuss labour, financial, production and development policies; and

(*d*) to discuss research programmes.

Over and above assisting the various Boards in the general work, the organisation will be offering technical guidance and help as and when needed. It will also be assisted from time to time by experts in the country and outside to evaluate the work of each of the units periodically to enable an independent assessment of the work of each of the units. The Committee will meet periodically once in three to six months.

The Central Committee has formed three sub-committees to deal with the following subjects:—

(*i*) Labour and personnel problems,

(*ii*) Finance, purchase and sales organization problems,

(*iii*) Production and training problems.

The sub-committee on labour and personnel problems will consider as labour participation in management; machinery for the settlement of industrial disputes in State undertakings; introduction of incentive system of payment and piece rates; standardisation of labour welfare amenities as suggested by the Estimates Committee; introduction of uniform standing order in State undertaking; and application of Central Government House

Building Loan Rules to Company employees.

The sub-committee on finance, purchase and sales will consider the procedure suggested by the Finance Ministry for financial review of the State undertakings; procedure for capital, equity capital and loans; standardisation of accounting procedure and introduction of cost accounting system; uniformity of scales of pay and conditions of service of staff and organization for sales of the products, marketing problems, purchasing policy and rate contract.

The sub-committee for production and training will be responsible for production programmes of the various undertakings and problems relating to recruitment of personnel, their training and migration of technical personnel.

These three sub-committees will get in touch with all the different units and discuss with their Boards their different problems so as to make suitable report and recommendations to the Central Co-ordination Committee.

7. MINISTERIAL CONTROL

Hindustan Steel

1. approval of Central Government is essential in the following cases:

(*a*) increase of capital;

(*b*) issue of new shares;

(*c*) reduction of capital;

(*d*) consolidation, division and subdivision of company's share capital;

(*e*) borrowing of money, its terms and conditions;

(*f*) issue of bonds, debentures, debenture stock or other securities;

(*g*) any programme of capital expenditure for an amount exceeding Rs. 40 lakhs;

(*h*) winding up of the Company;

(*i*) appointment of any officer to a grade the minimum pay of which is Rs. 2,000/- or more per mensem; and

(*j*) appointment of Auditors of the Company;

2. (*a*) the appointment of Chairman, Deputy Chairman and Directors, determination of their period of office, salaries and allowances and any other additional remuneration, removal and filling in of any vacancy; and

(*b*) the appointment of General Managers or Managers, Financial Advisers and Chief Accounts Officers, their terms of remuneration and period of office and conferment of powers on them is done by President.

3. Notwithstanding anything contained in any of the Articles of Association the President, may, from time to time, issue such directives or instructions as may be considered necessary in regard to finances, conduct of business and affairs of the Company. The Company shall give immediate effect to the directives or instructions so issued.

National Coal Development Corporation

1. Approval of the President is essential in the following cases:

(*a*) increase of Capital;

(*b*) issue of new shares;

(*c*) reduction of capital;

(*d*) consolidation, division and subdivision of Company's share capital;

(*e*) borrowing of money, its terms and conditions;

(*f*) issue of bonds, debentures, debenture stocks or other securities at a discount or premium;

(*g*) investment of moneys in securities;

(*h*) grant of commission on profits;

(*i*) setting aside portion of profits by Directors;

(*j*) any important issue in the opinion of the Chairman which is fit to be reserved for the President's decision;

(*k*) setting aside sums out of profits of the Company for Reserve fund, Depreciation Fund etc;

(*l*) declaration of dividends; and

(*m*) appointment of auditors.

2. The President is authorised to:

(*a*) determine the number of Directors, the appointment of Chairman, Managing Director and Directors, their salaries and allowances;

(*b*) remove any Director including Chairman and Managing Director from office and fill any vacancy in the office of the Director;

(*c*) sanction undertaking of works of a capital nature exceeding Rs. 20 lakhs;

(*d*) appoint any officer on a maximum pay of Rs. 2,000/- or more;

(*e*) issue such directives as he may consider necessary in regard to the conduct of the business of the Company or Directors thereof and in like manner vary and annul any such directives;

(*f*) appoint one or more members to represent President so long as the latter is shareholder of the Company.

Sindri Fertilizers and Chemicals

Same as in case of National Coal Development Corporation with the following exception:

The President's sanction is essential in all cases involving a capital expenditure exceeding Rs. 10 lakhs.

Nangal Fertilizers and Chemicals

Same as in Sindri Fertilizers and Chemicals.

Heavy Electricals

Same as in Sindri Fertilizers and Chemicals.

Neyveli Lignite Corporation

Same as in Sindri Fertilizers and Chemicals.

Hindustan Machine Tools

Same as in Sindri Fertilizers and Chemicals.

Bharat Electronics

Same as in Sindri Fertilizers and Chemicals.

Western Shipping Corporation

1. Appointment of Chairman, Managing Director and Directors, their tenure, removal, remuneration etc.

2. The following matters have been reserved for the consideration of the Central Government:

(*a*) Calling up the unpaid capital or increasing the authorised capital of the Company or issuing of any unissued shares forming part of the original authorised capital or forming the whole or part of any increase of capital in the event of any increase in capital beyond the original authorised capital of Rs. 10 crores.

(*b*) (*i*) Any proposal to borrow at a time exceeding Rs. 15 lakhs.

(*ii*) Any proposal to borrow which will increase the aggregate of such individual borrowings to an amount in excess of 25 per cent of the then paid-up capital of the Company, or Rs. 1 crore whichever is less.

(*iii*) Any proposal to borrow at a rate of interest exceeding the Reserve Bank rate by more than 1 per cent per annum, if the Managing Director considers that such a rate of interest is unduly high.

(*iv*) Any proposal for action relating to the reduction of capital.

(*v*) Any proposal for investment in a particular type of security or shares, if such investment exceeds Rs. 10 lakhs.

(*c*) Issue of Debentures;

(*d*) Acquisition, construction or sale of vessels involving an amount exceeding Rs. 10 lakhs.

(*e*) Any other single item of expenditure exceeding Rs. 10 lakhs.

(*f*) Winding up of the Company;

(*g*) Any important matter relating to the Company's establishment;

(*h*) Any other matter which in his opinion involves any important issue of general policy.

No action shall be taken by the Company in respect of any matter reserved for the consideration of the Central Government as aforesaid until its approval to the same has been obtained.

3. The Central Government may give to the Company through its Board, Chairman or Managing Director, directions as to the exercise and performance by the Company of its functions and the Company shall be bound to give effect to any such directions. Provided, that if at the direction of the Central Government the company establishes, alters or continues to maintain any trade, line, route or service and satisfies the Central Government that during the relevant financial year the company has suffered an overall loss in respect of the operation of its trade, route or service so altered or continued to be maintained in compliance with the *directions* of the Central Government as aforesaid, has been operated at a loss in any financial year, then the Central Government shall reimburse the company to the extent of loss relatable to the operation of that particular service or activity.

4. Appointment of auditors.

Eastern Shipping Corporation

Consequent on the coming into force of the Indian Companies Act, 1956 the Scindia Company intimated to the Government of India that they did not want to continue as Corporation's Managing Agents. The Managing Agency, therefore, stood terminated on the 15th August, 1956. A Managing Director has been appointed who carries on the work of the Corporation with the assistance of 6 Directors who are all appointed by the Central Government. Details of the Ministerial Relations are not available as the Articles of Association are under revision.

Government Telephones Board

1. Subject to the approval of the *founder* (formerly Governor General in Council) the Directors may from time to time borrow and secure the payment of any sum or sums for the purposes of the company.

2. The number and remuneration of Directors are to be determined by the *founder*.

3. The *founder* will nominate a Director as Chairman of the Board and also determine the period for which he is to hold office.

4. The *founder* as and when thinks fit can do all or any of the following things, i.e:

(*a*) may by notice in writing to the Company appoint any persons to be Directors of the Company;

(*b*) may by notice in writing to the Company remove any Director of the Company from office;

(*c*) may at any time convene a general meeting of the Company;

(*d*) may by notice in writing to the Company make many regulations in regard to the conduct of the business of the Company or Directors and in like manner may vary and annul such regulation;

(*e*) may by order under the provisions of the Government of India Act or otherwise in due form of law appoint one or more persons to exercise all or any of the powers of the *founder* under these Articles.

Exports Risk Insurance Corporation

1. (*a*) Appointment of Cha rman, Managing Directors and other Directors; their period of office and removal;

(*b*) The remuneration payable to Directors.

2. Appointment of a Central Advisory Council and other Advisory Boards and their functions.

3. The President may, from time to time, determine;

(*a*) the nature of risks that will be covered under contracts of insurance with the Corporation;

(*b*) the maximum limit up to which risks can be carried by the Corporation at any time; and

(*c*) the minimum limits below which the Corporation will not charge premiums on the policies issued by it.

4. Approval of the President is necessary in respect of the following matters:

(*a*) increasing or reducing the capital;

(*b*) granting by the Corporation of a loan or giving of a guarantee or any other financial assistance to an amount exceeding the limits prescribed by the President;

(*c*) winding up of the Corporation; and

(*d*) any other matter which in the opinion of the Chairman be of such importance.

No action shall be taken by the Corporation in respect of any proposal or decision of the Directors reserved for the approval of President until his approval to the same has been obtained.

Notwithstanding anything contained in the Articles of Association the President may from time to time, issue such directives or instructions as he may deem fit in regard to the finances and conduct of the business and affairs of the Company and the Directors shall duly comply with and give effect to such directives or instructions.

Hindustan Cables

Same as in Sindri Fertilizers and Chemicals.

National Instruments

Same as in Sindri Fertilizers and Chemicals with the following exceptions:

(*a*) All cases involving a capital expenditure exceeding Rs. 5 lakhs shall be referred to the President for his approval before authorisation.

(*b*) No appointment the maximum pay of which is Rs. 1,000/- or more per mensem shall be made without the President's approval.

National Projects Construction Corporation

Same as in Sindri Fertilizers and Chemicals with the exception of the following provisions:

(*a*) It is provided in the Articles of Association that in making the appointment of Directors consideration will be given for giving representation for the participating States, labour and business interests by the President.

(*b*) The first Managing Director will be appointed by President for a period of 3 years and subsequent appointment will be made by the Board of Directors.

National Industrial Development Corporation.

1. President's approval is necessary in any of the following matters:

(*a*) increasing or reducing the issued capital of the Company;

(*b*) granting by the Company of a loan or the giving of a guarantee or any other financial assistance to any one particular concern of an amount exceeding Re. 1 crore;

(*c*) winding up of the Company;

(*d*) any other matter which in the opinion of the Chairman be of such importance.

2. Appointment of Chairman, Vice-Chairman, Managing Director or Managers —their remuneration, powers, term of office, etc.

3. Issue such directives or instructions as he may think fit in regard to the finances and the conduct of business and affairs of the Company.

Hindustan Insecticides

Same as in Sindri Fertilizers and Chemicals with the following exception:

"All cases involving a capital expenditure exceeding Rs. 5 lakhs shall be referred to President for his approval before authorisation."

State Trading Corporation

(*i*) Appointment of Chairman, Managing Director and other Directors.

(*ii*) Their period of office.

National Research Development Corporation

Same as in Hindustan Insecticides except that President's approval is *not* necessary in the following cases:

(*a*) investment of moneys;

(*b*) grant of commission;

(*c*) creation of Provident Fund;

(*d*) salary and allowances of Managing Director (Board of Directors have the power to fix it), and

(*e*) grant of dividends. (No dividends in any form or shape shall be paid to members so long as the licence granted by the Government of India under Section 26 of the Act remains in force and is not rescinded or withdrawn).

National Small Industries Corporation

1. (*a*) Appointment of Chairman, Vice-Chairman, Managing Director and other Directors;

(*b*) their remuneration, term of office, etc.

2. Entrust to and confer upon the Managing Director or Manager such of the powers as he may think fit.

3. The Chairman shall reserve for the approval of the President any proposals or decisions of the Directors in respect of any of the following matters, namely :

(*a*) increasing or reducing the issued capital of the Company.

(*b*) granting by the Company a loan or the giving of a guarantee or any other financial assistance to any one particular concern of an amount exceeding Rs. 2.5 lakhs;

(*c*) winding up of the Company;

(*d*) any other matter which in the opinion of the Chairman be of such importance as to be reserved for the approval of the President.

No action can be taken in respect of any decision reserved for the President until his approval to the same has been obtained.

(*e*) President may, from time to time, issue such directives or instructions, as he may think fit in regard to the finances and conduct of the business and affairs of the Company and the Directors shall duly comply with and give effect to such directives or instructions.

Nahan Foundry

Same as in Sindri Fertilizers and Chemicals with the exception of the following:

(*a*) President's sanction is essential for undertaking works of capital nature involving a capital expenditure exceeding Rs. 50,000.

(*b*) No appointment or removal of any person to a post the maximum pay of which is Rs. 500 or more per mensem shall be made without the prior approval of the President.

Hindustan Housing Factory

The Articles of Association are under revision.

8. COMPANIES HAVING JOINT CAPITAL PARTICIPATION OF CENTRAL AND STATE GOVERNMENTS

1. OBJECTS

Hindustan Aircraft Factory

Hindustan Aircraft Limited was constituted as a Private Limited Company on 23rd December, 1940. It entered into a stage of assembly/manufacture of aircraft in early 1950. Since then it has undertaken the assembly/manufacture of Prentice Trainer and Vampire fighter aircraft for the Indian Air Force. It has now been decided to undertake the manufacture of a modern fighter aircraft at HAL to replace the Vampire. As a subsidiary activity, the factory is manufacturing third class railway coaches. After the end of 5 years the capacity of the rail coach factory of HAL has been developed to produce 300 Integral Type rail coaches per year.

Indian Rare Earths

It was set up on 18th August, 1950 as a Private Company jointly by the Government of India and Kerala. The plant is designed to treat 1500 tons of monazite per year and to produce therefrom about 1500 tons of rare earths, chlorides and carbonates and some 1500 to 1800 tons of sodium phosphate as a by-product. It has since been decided to increase the capacity of the plant

from 1500 to 3000 tons of monazite per annum in order to obtain the requisite quantity of uranium for the research programme of the Department of Atomic Energy.

Orissa Mining Corporation

The Orissa Mining Corporation (Private) Limited which is a joint venture of the Governments of India and Orissa was set up on 16th May, 1956. The object of the Company is raising, assembling and transporting iron and other minerals in Orissa for the purpose of sale or export or for undertaking all other responsibilities incidental or conducive to the attainment of the above objective.

Travancore-Minerals

The Government decided to nationalise the mineral sand separation industry in Kerala State in two stages. A new Company called the Travancore Minerals (Private) Limited was registered on 30th October, 1956. This Company has taken over all sand separation undertakings with exception of Messers Hopkins & Williams (Travancore) Limited.

2. FINANCE

Hindustan Aircraft Factory

General: The Company was registered with an authorised capital of Rs. 4 crores. The total subscribed capital of the Company as on 31st Dec., 1957 was Rs 6.8 crores. The value of shares held by the Government of India is Rs. 6.2 crores and those held by the Government of Mysore is Rs. 60 lakhs. The Company has decided, with the approval of Government, to raise the share capital of the Company from Rs. 4 crores to Rs. 18 crores. The additional capital will be provided entirely by the Government of India as the Government of Mysore the other shareholder of the HAL, have expressed their inability to participate in the further issue of share capital. A provision of Rs. 3 crores has been made in the Central Budget under Revised Estimates 1956-57 and Rs. 2.5 crores under Budget Estimates 1957-58 towards investment in the share capital of the Company.

Borrowing: The Board of Directors may at their discretion borrow money for the purposes of the Company.

Indian Rare Earths

General: The Company is registered with an authorised capital of Rs. 1 crore. The Government of India have subscribed 64 per cent of the share capital and balance of 36 per cent being subscribed by the Government of Kerala. (The Board of Directors have since decided to call up the remaining share capital amounting to Rs. 20 lakhs. The Government of India's share will be about Rs.11 lakhs which has been provided in the Revised Estimates 1956-57).

Borrowing: The Directors may borrow at their discretion on such terms and conditions as they shall consider to be for the benefit of the Company.

Orissa Mining Corporation

General: The Corporation was set up with the authorised capital of Rs. 50 lakhs to be contributed by the two participating Governments in equal proportions. The present paid up capital is Rs. 10 lakhs. As the Corporation is expected to go into production by the beginning of next year, it will be necessary to raise the paid-up capital to the level of authorised capital of Rs. 50 lakhs, Government of India's share being Rs. 25 lakhs. Provision has, therefore, been made in the Budget Estimates for 1957-58 for Rs. 22.5 lakhs.

Borrowing: The Board of Directors may at their discretion borrow money for the purposes of the Company.

Travancore-Minerals

The authorised capital of the Company is Rs. 1 crore which is to be equally shared between the Government of India and Kerala. A provision of Rs. 25 lakhs has been made in the Revised Estimates for 1956-57 to meet the Government of India's liability on account of issued share capital.

3. MINISTERIAL RELATIONS

Hindustan Aircraft Factory

The Directors are appointed by Government of India and Mysore Government

in proportion of their investment. The details are not available as the Memorandum and Articles of Association are Confidential documents.

Indian Rare Earths

1. The Chairman is nominated by the Central Government.
2. Three Directors of the Board are appointed by the Central Government and the State of Kerala has the power to nominate two.

Orissa Mining Corporation

1. The President of India has the authority to nominate the Chairman and three Directors.
2. The Governor of Orissa is authorised to nominate 3 directors. (Any increase in the number of Directors shall be in even numbers—half of the increased number is to be appointed by President).
3. The President and the Governor have the power to remove the Directors nominated by them.

4. BOARD OF DIRECTORS

Hindustan Aircraft Factory

There are six directors including the Chairman and the Managing Director.

The Board of Directors has been delegated with very wide powers concerning the affairs of the Company which they may exercise without reference to the Government of India or the Mysore Government. Examples of some such powers are as under:—

1. to borrow money for the purposes of the Company;
2. to fix remuneration of Directors either for attending meetings of the Board or for performing extra services;
3. to purchase, take on lease or otherwise acquire property the Company;
4. to pay in debentures for property acquired;
5. to secure fulfilment of contracts by mortgage;
6. to appoint, remove or suspend officers and others and to fix their salaries and emoluments including bonus, pension or gratuity:
7. to invest money; and
8. To give security by way of indemnity.

Indian Rare Earths

Appointment: The Government of India have a right to appoint three persons and two persons are appointed by the Kerala Government as Directors of the Company.

Number: The Articles of Association provide that the number of Directors shall not be less than 3 nor more than 12 including the Central Government Directors, the Kerala Government Directors and the Debenture Director (if any). At present the number of Directors is six.

Qualifications: A Director is not required to hold any qualifying shares:

Disqualifications: The office of the Director shall be vacated if:

(*a*) he is found to be of unsound mind by a Court of competent jurisdiction; or

(*b*) he is adjudged an insolvent; or

(*c*) he fails to pay calls made on him in respect of shares held by him within six months from the date of such calls being made; or

(*d*) he or any firm of which he is a partner or any private Company of which he is a Director without the sanction of the Company in General Meeting accepts or holds any office of profits under the Company other than that of a Managing Director or Manager or a Legal or Technical Adviser or a Banker; or

(*e*) he absents himself from three consecutive meetings of the Directors or from all meetings of the Directors for a continuous period of three months whichever is the longer without leave of absence from the Board of Directors; or

(*f*) he suspends payment to or compounds with his creditors; or

(*g*) he resigns office by notice in writing addressed to the Company or to the Directors; or

(*h*) he is removed from office by an Extraordinary Resolution of the Company.

Remuneration: The Remuneration of a Director for his services are Rs. one hundred for each meeting with powers to Directors from time to time to revise such fee but so as not to increase the same beyond a maximum of Rs. 100 for each meeting; and such additional remuneration by way of salary or commission on dividends profits or turnover or by participation in profits. No Director who is a Government servant is entitled to receive any such remuneration except as authorised by his Government.

Tenure: The Government and Debenture Directors are not liable to retire by rotation or to be removed from office except by the Government of India or Kerala. Other Directors retire by rotation. A Director is eligible for re-election.

Powers of the Board:

The Directors may, before recommending any dividend, set aside out of the profits of the Company such sums as they may think proper for Depreciation or Reserve or Sinking Fund or any special fund to meet any contingencies. They may also invest such sums set aside as they think fit. They may, subject to the provisions of the Act delegate all or any of the powers, authorities and discretions for the time being vested in the Directors to any Director, officer or employee of the Company.

Managing Director:

The Directors may from time to time appoint a Managing Director for a fixed term and also remove or dismiss him. The remuneration is fixed by the Directors. The Directors may from time to time entrust and confer upon a Managing Director such powers as they think fit.

Orissa Mining Corporation

Appointment: The Chairman and three Directors are appointed by President of India and three Directors are nominated by the Orissa Government.

Number: The number of Directors is seven. Any increase in number shall be in even number—half by President of India and half of the number by Orissa Government.

Qualifications: A Director is not required to hold any share qualification.

Disqualifications: Same as in case of Indian Rare Earths (Private) Limited.

Remuneration: The Articles of Association provide that the remuneration shall, in so far as it consists of a monthly payment be deemed to accrue from day to day. In addition travelling, hotel charges and other expenses are also to be paid.

Powers of the Board of Directors :

The Articles of Association provide the general powers of the Directors which inlude payment of all expenses in getting up and registering the Company and exercise all such powers and do all such things as the Company is by its Memorandum of Association authorised to exercise.

The Directors may set aside out of profits of the Company such sums as they think proper as a reserve or reserves which at the discretion of the Board be applicable for any purpose to which profits or the Company may be properly applied including provision for meeting contingencies or for equalising dividends.

The Directors are also authorised to carry forward any profits without setting them aside as a reserve.

9. CENTRAL GOVERNMENT COMPANIES HAVING THE SHARE CAPITAL PARTICIPATION OF STATE GOVERNMENT AND PRIVATE COMPANY

Object: The Indian Telephone Industries (Private) Limited registered on the 25th January, 1950 is the only factory of its kind in which the Central Government and the Government of Mysore hold jointly about 97% of the shares and the balance are held by Automatic

Telephone and Electric Company Limited in free scrip. Under the terms of agreement, it has a *quid prquo* for providing technical assistance and the know-how.

Financial : The authorised capital of Rs 4 crores is fully paid up by the Central Government. The shares held by the Mysore Government are worth Rs. 31 lakhs, and the Automatic Telephone and Electric Company Limited England hold shares of the value of Rs. 10 lakhs. The Articles of Association prohibit the Company to invite the public to subscribe to any shares or debentures. Loans amounting to Rs. 51.84 lakhs have been granted to the Company by the Government of India up to the end of the First Five-Year Plan period. A further loan has been sanctioned towards their capital expenditure programme during 1956-57 out of a total provision of Rs. 50 lakhs to be granted as loan by Government of India during the whole of Second Five Year Plan.

Ministerial Relations: The President, as and when he thinks fit can do all or any of the following things, that is to say,

1. may, by notice in writing to the Company, appoint any persons to be Directors of the Company;
2. may, by notice in writing to the Company, remove from office any Director of the Company other than the Director appointed by the Automatic Telephone and Electric Company Ltd;
3. may, by notice in writing served on the Company, fix the remuneration of the Directors or any particular Director or Directors;
4. may, at any time, convene a general meeting of the Company; and
5. may, by notice to the Company, make any regulations not inconsistent with the objects of the Company as set out in the Memorandum of Associations; in regard to the conduct of the business of the Company or Directors thereof and in like minner, may vary and annul any such regulations.

Board of Directors: The President has the right to appoint all the Directors with the exception of the Director appointed by the Automatic Telephone and Electric Company Limited. The number of directors of the Company is determined in writing by the President. The Directors are not required to hold any qualification shares and their remuneration is determined by the President. There are at present 8 directors including the Chairman and Managing Director who are appointed by the President.

The Secretary to the Ministry of Communications, of the Government of India, is the Chairman of the Board. Two industrialists have also been associated with the Board. The Ministry of Finance is represented on the Board by a Deputy Secretary. The Chief Engineer of Posts and Telegraphs is also one of the Directors. The Mysore Government have nominated one Director. The Automatic Telephone and Electric Company Limited, according to the agreement, have a right to appoint one Director who is entitled to hold office until removed by the Company. They have also the right to appoint an alternate Director who is entitled to attend and take part in the proceedings of the Board of Directors, whenever the Director nominated by the Company is either not in India or is unable to be present for any other reason.

Powers of Board of Directors: According to the Articles of Association (drawn up under the old Companies Act which are yet to be revised), the powers of the Board of Directors are on the lines laid down in Table 'A' of the Companies Act, 1913. There is no financial limit fixed for the Board to undertake works of a capital nature as is the case with Sindri Fertilizers, Hindustan Steel, etc. which are entirely State owned. There is no mention in the Articles of Association about the appointment of staff and their salaries. In the case of other 3 types of Companies already discussed, the appointment of any person to a grade, the maximum pay of which is Rs. 2000 or more per month cannot be made without the approval of the President. The Directors,

can, from time to time at their discretion, borrow or secure the payment of any sum or sums for the purposes of the Company, subject to the approval of the President. They may also secure the repayment of such moneys in such manner and upon such terms and conditions in all respects as they think fit and in particular, by issue of debentures or debenture stock or company charged upon all or any part of the property of Company, both present and future, subject to the approval of the President.

Managing Director : The Managing Director is appointed by the President for the conduct of management of the business of the Company subject to the control and supervision of the Board of Directors. He is authorised by the Board to exercise such powers and discretion in relation to the affairs of the Company as are specifically delegated to him by the Board. His remuneration is fixed by the President.

10. CENTRAL GOVERNMENT COMPANIES HAVING PRIVATE CAPITAL PARTICIPATION

1. OBJECTS

Hindustan Shipyard

The Company was registered as a private Company on 21st January, 1952 to acquire and take over Scindia Steam Navigation Company Limited, its goodwill and business of shipbuilding and ship repairing carried on at Vishakapatnam. The object of the Company is to carry on business of shipbuilders, ship repairers, vendors of ships, manufacturers and repairs of engines, boilers and machinery required for ships.

Ashoka Hotels Ltd.

In pursuance of the Government's decision to construct a hotel in the Diplomatic Enclave, New Delhi, a public Company was floated on 17th October, 1955 with Jamsaheb of Nawanagar and his other associate as the promoters and the government participating to the extent of 84% of the share capital.

Rehabilitation Housing Corporation

The Corporation was incorporated on 19th September, 1951 with the object of assisting in the solution of the housing problem facing the displaced persons in the Delhi State by constructing houses for them. The other object is to acquire deal with or dispose of any kind of property and rights moveable or immovable.

2. FINANCE

Hindustan Shipyard

General: The authorised capital of the Company is Rs. 10 crores. The total issued capital of the company stands at Rs. 452.75 lakhs, out of which Government of India holds shares valued at Rs. 348.64 lakhs. The remaining shares valued at Rs. 104.11 lakhs are held by the Scindia Steam Navigation Company Ltd. A provision of Rs. 75.78 lakhs has been made in the Revised Estimates 1956-57 for further Development of Shipyard and payments to Scindias and their Debenture Trustees acquiring the shipyard from them. A provision of Rs. 30 lakhs has been made in Budget Estimates 1957-58 for Development of the yard.

Borrowing: The Chairman of the Board of Directors shall reserve for the consideration of the Central Government any proposal of the Board in respect of any borrowing by the Company in excess of 25% of the then paid-up capital or at a rate of interest exceeding the Reserve Bank of India rate by more than 1%.

Ashoka Hotels Ltd.

General: The authorised capital of the Company has been fixed at Rs. 1 crore and the Board of Directors was expected to issue debentures with the approval of Government for a further sum of Rs. 1 crore. The Government acquired preference shares in the share capital of the Company to the extent of Rs. 26 lakhs and a provision was also made in the agreement for the advance of a loan of Rs. 25 lakhs by Government at 5% per annum interest for the working capital. A further loan of Rs. 1 crore has been granted to the Company in lieu of debentures for Rs. 1 crore which it was originally expected to issue. A provision of Rs. 58 lakhs has been made in Revised Estimates 1956-57 for

purchase of remaining shares of the Company.

Borrowing: The Board of Directors may borrow at their discretion any sum or sums of money for the purposes of the Company.

Rehabilitation Housing Corporation

General: The Company was registered with an authorised capital of Rs. 50 lakhs of which the subscribed capital is worth Rs. 25 lakhs. The Central Government owns 80% of the share capital.

Borrowing: The Chairman may and when requested by any Government Director shall reserve for the consideration of Central Government any proposal to borrow any sum at a time exceeding Rs. 10 lakhs.

3. MINISTERIAL RELATIONS

Hindustan Shipyard

1. The Chairman and the Managing Director are nominated by Central Government

2. The following proposals have to be reserved for the consideration of Central Government by the Chairman:—

(*a*) calling up the unpaid capital or increasing the authorised capital of the company or issuing of any unissued shares in event of any increase in capital beyond the original authorised capital of Rs. 10 crores;

(*b*) programme of Capital expenditure for an amount exceeding Rs. 20 lakhs;

(*c*) any borrowing by the Company in excess of 25% of the then paid-up capital or at a rate of interest exceeding the Reserve Bank of India rate by more than 1 %;

(*d*) issue of Debentures ;

(*e*) winding up of the Company ;

(*f*) any other matter brought before the Board which raises in the opinion of the Chairman of the Board an important issue and which is on that account fit to be reserved for the consideration of Central Government; and

(*g*) any request unanimously made by Directors representing Scindias or by Managing Director that any particular matter brought before the Board should be reserved for the consideration of Central Government.

3. Government's sanction is also essential for the appointment of an officer on a salary of Rs. 2000/- p.m. or more.

Ashoka Hotels Ltd.

1. Nomination of two Directors is made by the Central Government.
2. General Manager is appointed in consultation with the Government.
3. If Government is a creditor or debenture holder the Government is entitled to appoint a Debenture Director or Mortgage Director.
4. The President's nominees are entitled to cause a reference to be made to President in writing in regard to any important matter.

Rehabilitation Housing Corporation

1. Nomination as Directors of one-third of the total number of Directors forming the Board of Directors of the Company is made by the Central Government. Their appointment and removal from office is done by Central Government.

2. The Chairman of the Board may and when requested by any Govenrment Director shall, reserve for consideration of the Central Government the following matters relating to the working of the company:—

(*a*) Calling up the unpaid capital or increasing the authorised capital of the Company or issuing of any unissued shares forming part of the original authorised capital or forming the whole or part of any increase of capital in the event of any increase in capital beyond the original authorised capital of Rs. 50 lakhs.

(*b*) (*i*) any proposal to borrow at a time exceeding Rs. 10 lakhs;

(*ii*) any proposal to borrow which will increase the aggregate of such individual borrowings to an amount in excess of 25 per cent of the then paid-up capital of the Company, or Rs. 10 lakhs whichever is less;

(*c*) issue of Debentures;

(*d*) winding up of the Company;

(*e*) any important matter relating to the Company's establishment; and

(*f*) any other matter which in his opinion involves an important issue of general policy.

3. The Chairman of the Board of Directors of the Company shall be entitled to reserve for the consideration and advice of the Central Government any other matter brought before the Board which in his opinion should by so reserved. The Chairman shall also if requested by a majority of the Directors present and voting at any meeting of the Board reserve any issue pending before the Board for consideration and advice of the Central Government.

4. The Government Directors acting as a body have the power to veto any decision of the Board of Directors but whenever such a veto is exercised, the Board of Directors have the right to refer the matter by way of appeal to the Government of India for their decision which is final.

4. BOARD OF DIRECTORS

Hindustan Shipyard

Appointment: The President is authorised to appoint the Chairman, Managing Director and six other Directors. The other four Directors i.e. one-third of the total strength, are nominated by Scindias.

Number: The Articles of Association provide not less than six and not more than 14. The present number is 13 (Thirteen).

Qualifications: No share qualifications for Government, Debenture and Technical Directors. For other Directors holding of shares in the Company of the aggregate value of Rs. 1000/- is required.

Disqualifications : The office of the Director shall be vacated if:

(*a*) he fails to obtain within the specified time the share qualification;

(*b*) he absents himself from 3 consecutive meetings of the Board without obtaining leave;

(*c*) he accepts a loan or guarantee or security therefor from the Company in contravention of Section 295;

(*d*) he contravenes the provisions of Section 299 relating to disclosure of interests;

(*e*) if he is found to be of unsound mind by a Court of Competent Jurisdiction;

(*f*) he is adjudged insolvent;

(*g*) he is disqualified by order of court under Section 203; and

(*h*) by any notice in writing to the Company he resigns his office.

Tenure: One-third of the Directors have to retire by rotation except the Government Directors at the ordinary General meeting of the Company. A retiring Director is eligible for re-election. The Company may by extraordinary resolution remove any Director. The appointment and removal of Government Directors is made by Government of India.

Remuneration: Not exceeding Rs. 100/- for each meeting. The Board has powers to revise the fee but so as not to increase the same beyond Rs. 100/- for each meeting.

Powers of the Board of Directors: The Board of Directors have the power:—

(*a*) to purchase or otherwise acquire for the Company any property, rights or privileges which the Company is authorised to acquire at such price and on such terms and conditions as they think fit;

(*b*) to invest and deal with any of the moneys not immediately required for the purposes thereof, upon such securities and in such manner as they may think fit;

(*c*) to execute in the name of the Company in favour of any Director or other person who may incur or be about to incur any personal liability for the benefit of the Company such mortgages of the Company's property as they think fit;

(*d*) to give to any Director, officer or other person employed by the Company an interest in any particular business or transaction either by way or commission on the gross expenditure thereon or a share in the general profits of the Company and such interest, commission or share of profits shall be treated as a part of the working expenses of the Company;

(*e*) before recommending any dividend to set aside out of the profits of the company such sums as they may think proper for depreciation or to Depreciation Fund, Reserve or Reserve Fund, Sinking Fund, Insurance Fund or any other fund as the Directors may, in their absolute discretion, think conducive to the interests of the Copmany;

(*f*) to appoint at their discretion, remove or suspend such officers as they may from time to time think fit, provided however, that the appointment of any person to a grade the maximum pay of which is Rs. 2000/- or more per mensem shall not be made without the prior approval of Central Government; and

(*g*) to establish Local Boards for managing any of the affairs of the Company.

Ashoka Hotels Ltd.

Appointment: (*i*) Two permanent Directors are nominated by President (*ii*) Jam Sahab of Nawanagar and Shri Harbans Lal Chadha, so long as they hold shares worth Rs 1,50,000 and Rs. 1 lakhs respectively, are entitled to nominate 2 persons each as Directors.

Number: Articles of Association provide not less than seven and not more than 24. The present number is 11.

Qualifications : No share qualification for special Directors or Government nominees. For other Directors the qualification shall be the holding of shares in the Company of the nominal value of Rs. 5000/- or more.

Disqualifications: Same as in Hindustan Shipyard.

Tenure: Same as in case of Hindustan Shipyard. The Special Director or the Government Directors do not retire by rotation.

Remuneration: Remuneration for the services of Directors (other than Govt. Director) at the rate of Rs. 1000/- p.m. The Debenture and Mortgage Directors are entitled to get not more than Rs. 100/- for each meeting.

Powers of the Board of Directors: The Board of Directors have the power to:—

(*a*) purchase or acquire land from Central Government; and

(*b*) purchase, take on lease or acquire from any Government, local authority or person any property, rights and privileges, machinery etc.

No action can be taken on such issues without President's approval.

The question as to what matters are not matters involving policy affecting the financial position of the Company for which a reference may be caused to be made as provided herein shall be decided by President and the Company by mutual agreement.

Rehabilitation Housing Corporation

Appointment: The Government of India is entitled to nominate one-third of the total number of Directors as Directors.

Number: Articles of Association provide not less than five and not more than 10. The present number of Directors is 5.

Qualifications: The qualification of every Director (other than Government or Debenture Directors) shall be the holding of shares in the Company of

the value of Rs. 5000/- or above in his name.

Disqualification : Same as in Hindustan Shipyard.

Tenure: Same as in Hindustan Shipyard.

Remuneration: Not exceeding Rs. 50/- for the services and that of Chairman such sum not exceeding Rs. 50/- for every meeting of the Board and such reasonable further remuneration as may be fixed by the Board.

Powers of the Board of Directors: The Board of Directors have the power:—

(*a*) to raise or borrow or secure the payment of any sum or sums of money for the purposes of the Company, pay and repay such moneys on terms and conditions in all respects as Directors may think fit and in particular by issue of Debentures;

(*b*) subject to the provisions of the Act and Articles of Association to issue debentures at a premium or discount or otherwise;

(*c*) to execute any mortgage charge of security;

(*d*) to exercise all such powers and do all such acts and things as the Company by its memorandum or otherwise is authorised to exercise and do. The powers include the purchase or otherwise acquire for the company any property rights or privileges which the Company is authorised to acquire, making advances and loans, grant of commission to any officer on any particular business, provided for welfare of employees;

(*e*) to set aside out of the profits of the Company such sums as they think proper for Depreciation, Reserve Fund or Sinking Fund or any special fund to meet contingencies and to repay debenture or debenture stock or any loans;

(*f*) to appoint and remove or discharge from the management of the business managers, secretaries, experts, engineers as the Directors may from time to time think fit and to determine their emoluments, salaries or wages; and

(*g*) to establish any local Board.

11. STATE GOVERNMENT COMPANIES

1. OBJECTS

Mysore Sugar Company

The Company was established on 30th January, 1933, at Bangalore. The Company has a sugar factory at Mandya capable of crushing 2,000 tons of sugarcane per day. There is also a distillery attached to the factory. It also holds a licence from the Government of Mysore to manufacture country spirit for export.

Radio and Electricals Manufacturing Co.

The Company was established on 25th February, 1946, to carry on the business of manufacture of Radio and Television Receiver sets, Radio gramophones and Radio transmission and electric apparatus in all forms. The Company has concluded manufacturing agreement with U. K. firms of repute for manufacture of radio component parts and with a Swiss firm for manufacture of water meters. The Company has been manufacturing community receiver sets for the Government of India besides the manufacture of Domestic Receiver sets.

Praga Tools Corporation

The Company was founded on 28th May 1943, to carry on the business of Manufacturing cutting tools like Milling Cutters, Reamers, Taps and Dies, Munitions and General Workshop trade and machine tool accessories. Since then the manufacturing programme has been considerably diversified into two main distinct lines—manufacture of medium and light forgings of the railways. The Company also makes forgings for Diesel engine components and various other engineering products like automobiles etc. The expansion of the Company is now under active consideration of the Government of India and Andhra Pradesh.

Nizam Sugar Factory

The Company was registered on 17th April, 1937, in the old Hyderabad

State to carry on the business of manufacturers of and dealers in all kinds of sugar, gur and their by-products. The Government of India have decided to set up a newsprint factory in the area through the National Development Corporation. Begasse now being used as fuel would be utilized for manufacturing newsprint.

United Electrical Industries

The Company was established on 3rd October, 1950, in the State of Kerala to manufacture or set down parts from foreign countries and assemble electric house-service meters and to deal in them. The Company has an agreement with Aron Electricity Meter Ltd., London, for production of and manufacture of electric meters in India. At the extraordinary general meeting held on 22nd March, 1956, special resolutions were passed appointing Messrs Associated Engineering Corporation (Private) Ltd, as Managing Agents of the Company for a period of 10 years.

Travancore Titanium Products Ltd.

The Company was established on 10th December, 1946, in the State of Kerala to promote the production and use of Titanium, Zinco, lead and in particular manufacture of Titanium.

Madras Industrial Instrument Corporation

The Company was founded on 26th March, 1949. The Corporation was sponsored by the Government of Madras for the financing of long-term loans to industrial concerns where such credit is not ordinarily available from commercial banks.

Tripura State Bank

The Bank was registered as a Company on the 10th February, 1945, under the Tripura State Companies Act. The object of the Bank is to promote and finance sound industrial and business projects.

Orissa Road Transport Company

The Company was registered as a Public Joint Stock Company on 1st December, 1950, for implementation of the plan for rationalisation of road transport in order to achieve rail-road co-ordination.

2. FINANCE

Mysore Sugar Company

General: The Company is registered with an authorised capital of Rs. 25 lakhs. The issued and subscribed capital is Rs. 22 lakhs of which the State Government has subscribed Rs. 12 lakhs.

Borrowing: The Directors are authorised to raise or borrow or secure the payment of any sum on such terms and conditions as they think fit.

Radio and Electricals Manufacturing Co.

General: The authorised capital of the Company is Rs. 37.5 lakhs. The paidup capital is Rs. 24.4 lakhs of which the Government's share amounts to Rs. 15 lakhs. The Government of Mysore have sanctioned Rs. 26.5 lakhs as cash credit loan during 1956-57.

Borrowing: The Directors may, from time to time, at their discretion raise or borrow or secure the payment of, any sum or sums of money for the purpose of the Company. The amount for the time being remaining undischarged of moneys borrowed or raised by the Directors for the purpose of the Company (otherwise than by the issue of share capital) shall not exceed share capital of the Company without the sanction of the Company in general meeting.

Praga Tools Corporation

General: The authorised capital of the Company is Rs. 1 crore and the subscribed capital is Rs. 70 lakhs of which the Government of Andhra Pradesh has invested Rs. 42.6 lakhs.

Borrowing: The Directors at their discretion may borrow or secure the payment of any sum of money for the purposes of the Company provided that the Director shall not without the sanction of a general meeting of the Company borrow any sum which will make the amount borrowed by the Company and then outstanding exceed the issued capital of the Company for the time being.

Nizam Sugar Factory

General: The factory is registered with an authorised capital of Rs.2 crores. The paid-up capital of the Company is Rs. 1.46 crores of which the State Government has subscribed Rs. 1.05 crores.

Borrowing: The Directors are authorised to borrow or secure at their discretion the payment of any sum or sums of money for the purposes of the Company.

United Electrical Industries

General: The authorised capital of the Company is Rs. 25 lakhs. The subscribed and paid-up capital is Rs. 9.51 lakhs of which the Government has subscribed shares worth Rs. 7.75 lakhs.

Borrowing: The Directors may, from time to time, at their discretion borrow or secure the payment of any sum or sums of moneys for the purposes of the Company. They may raise or secure the payment of such sums on such terms and conditions as they think fit.

Travancore Titanium Products Ltd.

General: The authorised capital of the Company is Rs. 75 lakhs. The subscribed and paid-up capital of the Company is Rs. 73 lakhs. The Kerala Government has subscribed shares worth Rs. 38.25 lakhs.

Borrowing: The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital. Provided that the amount for the time being remaining undischarged of moneys borrowed by the Directors for the purposes of the Company shall not at any time, without the previous sanction of the Company in general meeting, exceed the nominal amount of the authorised share capital of the Company.

So long as moneys are due and payable to the Industrial Finance Corporation no mortgage or charge shall be created on the assets of the Company mortgaged or charged to the Industrial Finance Corporation of India without the previous written consent of the Corporation.

Madras Industrial Investment Corporation

General: The authorised capital of the Corporation is Rs. 2 crores. The paid-up capital of the Company Rs. 129.51 lakhs of which the State Government has subscribed Rs. 1.02 crore. The total amount of loans advanced by Corporation, is Rs. 99.35 lakhs as on 30-6-1955 to various industries like Textiles, Vanaspathi and oils, Textile Machinery manufacture, Light Engineering and Confectionery, etc. During 1955 debentures worth Rs. 50 lakhs were issued at 4¼ per cent interest per annum. In the year 1956 debentures were again issued worth Rs. 25 lakhs at the same rate of interest.

Borrowing: The Directors, from time to time, at their discretion raise or borrow or accept deposits from any person provided that the money so borrowed and owing and accepted on deposit at any time shall not exceed five times the amount of the paid-up capital of Company and reserves. Provided further that no deposit shall be accepted by the Company for a period of less than one year. A certificate under the hands of two Directors to the effect that in taking any loan the Directors are not exceeding their borrowing powers shall be sufficient and binding on the Company and all concerned.

Tripura State Bank

The authorised capital at the time of registration was Rs. 1 crore. By a a special resolution passed at the meeting of the Company the Capital has been reduced to Rs. 50 lakhs.

The Directors are authorised to raise money on behalf of the Company by deposits or loans or by issue of debentures or by borrowing from other Banks on the security of the assets of the Company.

The Directors may at their discretion raise or borrow or secure the payment of any sum for the purposes of the Company.

Orissa Road Transport Company

The Company was floated with an authorised capital of Rs. 35 lakhs. The State Government has subscribed 31 per cent of the share capital; Central Government, 20 per cent; public and ex-operators

29 per cent, reserving 20 per cent of the shares for the employees of the Company. With a view to further extending the services during the Second Five-Year Plan the authorised share capital of the Company has been increased to Rs. 50 lakhs.

3. MINISTERIAL RELATIONS

Mysore Sugar Works

1. The Government have a right to nominate four Directors. They are liable to be removed under the orders of the Government.

2. The appointment of Managing Director and General Manager has to be approved by the Government. The Managing Director is the Chairman of the Board of Directors.

Radio and Electricals Manufacturing Co.

1. The Managing Director and two other Directors are appointed by the Government who can be removed only under orders of Government. The Managing Director so appointed is the Chairman of the Board of Directors.

2. The Government is authorised to fix the remuneration of the Managing Director, from time to time, in consultation with the Board of Directors.

3. The appointment of General Manager and Secretary is subject to the approval of Government.

Praga Tools Corporation

The Industrial Trust Fund, Andhra Pradesh Government is entitled to appoint three Directors.

The Chairman is also nominated by the Industrial Trust Fund.

Nizam Sugar Factory Limited

Two persons are nominated by the Government to be Directors of the Company. They are liable to be removed by the Government.

United Electrical Industries

The Government is entitled to appoint not more than two Directors on the Company's Board. They hold office at the will of the Government and not otherwise liable to retirement.

Travancore Titanium Products Ltd.

The Government is entitled to nominate one Director.

Madras Industrial Investment Corporation Ltd.

The Government of Madras are at liberty to appoint three Directors. They can be removed only by the Government.

The Chairman of the Board is appointed by Government. The appointment of Secretary has also to be approved by Government.

Tripura State Bank

The Government is entitled to nominate four Directors to the Board.

2. Approval of Government is necessary for the appointment of General Manager.

Kutch Transport Company

The Government has the power to appoint two Directors on the Board.

Orissa Road Transport Company Ltd.

The Chairman and one Director are appointed by the State Government. The Central Government have nominated two Directors to the Board.

4. BOARD OF DIRECTORS

Mysore Sugar Company Ltd.

Appointment: The Articles of Associations provide that 4 Directors referred to as Government Directors are to be appointed by His Highness the Maharaja of Mysore.

Number of Directors: The number of Directors is seven (inclusive of Government Directors).

Qualifications: The qualification of every Director of the Company (except the Government Director) shall be 100 ordinary shares of the value of at least Rs. 5000.

Disqualifications: The office of a Director shall be vacated in the following cases:

1. if he, or any partner of his or the firm of which he is a member, accepts, or holds any other office or place of profit under the

Company except that of a Managing Director of the Company; but the position of trustee of a deed for securing debentures, or of solicitor or legal adviser, or banker or a member of the agent's firm is not to be considered an office; or

2. if he becomes bankrupt or insolvent.

3. if he is found lunatic or becomes of unsound mind.

4. if he, not being already qualified, and not being a Government Director, does not within the period of two months from the date of registration of the Company obtain his qualification, or if after the expiration of such period he ceases at any time to hold his qualification, and a Director vacating office under this paragraph shall be incapable of being re-appointed Director until he has obtained his qualifications.

5. if he absents himself from the meetings of the Directors during a period of four consecutive months without special leave of absence from the Directors, and they pass a resolution that he has by reason of such absence vacated his office.

6. if by notice in writing to the Company he resigns his office.

Tenure: At the first ordinary General Meeting of the Company and at every General Meeting in every subsequent year, one of the Directors (exclusive of the Government Directors) shall retire from office by rotation. He is eligible for re-election.

Remuneration: The remuneration of the Directors (including Government Directors) shall be a sum not exceeding Rs. 50/- each for every meeting attended by them and the remuneration of the Chairman shall be a sum not exceeding Rs. 60 for every Board meeting attended by him.

Powers of Directors: Following are the powers of the Board of Directors:—

(*a*) to pay preliminary expenses;

(*b*) to acquire property;

(*c*) to pay for property in debenture, etc;

(*d*) to secure contracts by mortgage;

(*e*) to appoint Trustees;

(*f*) to authorise acceptance, etc;

(*g*) to appoint attorneys;

(*h*) to give security by way of indemnity;

(*i*) to invest, the funds of the Company from time to time in Government securities;

(*j*) to set aside from time to time out of the net profits realized by the Company such a sum of money as the Directors shall think fit and to place the same to the credit of any one or more of the undermentioned accounts, or such other accounts, as the Directors may think fit, viz:—

(*i*) Reserve Fund Account;

(*ii*) Fire Insurance Fund Account;

(*iii*) Repairs and Renewals Funds Accounts (*a*) Buildings, (*b*) Machinery,

(*iv*) Bad Debt Account.

(*k*) to authorise and empower the Director and other officers, for the time being, of the Company, or such other person or persons as the Directors may think fit to exercise and perform all or any of the powers, authorities and duties conferred or imposed upon the Directors by these Articles of Association;

(*l*) to give to any person employed by the Company a commission on the profits of any particular business or transaction or a share in the general profits, of the Company, and such commission or share of profits shall be treated as part of the working expenses of the Company;

(*m*) to appoint, remove or suspend all officers except those referred to in Article 135; and

(*n*) and generally to do, sanction and authorise all such matters and things as may be necessary to be done in and about conducting the affairs of the Company or carrying into effect all or any of the objects or powers of the Company as expressed in the Memorandum of Association, or in and about the execution of all or any of the powers herein before conferred upon the Directors.

Chairman and Managing Director: The Managing Director is also the Chairman of the Company. The Directors may appoint one of their colleagues as Managing Director subject to the approval of the Government on such terms and remuneration as they think fit.

Subject to the Articles of Association and the control of the Directors, the Managing Director shall have the power for and on behalf of the Company to endorse and transfer promissory notes, stock receipts, stock debentures, securities, etc. The Managing Director under supervision of the Directors has to maintain accounts of the paid-up capital for the time being of the Company and generally all its commercial financial and other affairs for showing the true financial state and condition of the Company.

Radio and Electricals Manufacturing Company

Appointment: The Government has the power to nominate three Directors including the Managing Director who is also the Chairman of the Board.

Number of Directors: The number of Directors shall be nine inclusive of official Directors until otherwise determined in the General Meeting.

Qualifications: The qualification of other Directors of the Company (except the official Directors) shall be the holding of at least 500 ordinary shares of the value of Rs. 5000.

Disqualifications: Same as in the case of Mysore Sugar Company.

Tenure: At the first ordinary General Meeting of the Company all the Directors (except the official Directors) shall retire from office. At the ordinary General Meeting in every subsequent year 1/3rd of the total number of Directors who are not official Directors retire from office. The official Directors are not liable to retire by rotation.

Remuneration: The Board may, from time to time, fix remuneration to be paid to any Director for any extra service rendered by him. The sitting fees of the Directors (including the official Directors for their service) shall be a sum not exceeding Rs. 50/- each for each Board or Committee meeting attended by them and the sitting fees of the Chairman shall be a sum not exceeding Rs. 75/- for every Board or Committee meeting attended by him.

Powers of Directors: The Directors shall have the following powers:—

(*a*) to exercise the borrowing powers of the Company and to secure the repayment of any money borrowed or raised in any manner in which the Company might do;

(*b*) to purchase or otherwise acquire for the Company any property, rights or privileges which the Company is authorised to acquire at such price and generally on such terms and conditions, as they may think fit.

(*c*) to secure the fulfilment of any contracts or engagements entered into by the Company by mortgage or charge of all or any of the property of the Company and its uncalled capital for the time being or in such other manner as they may think fit;

(*d*) to invest the funds of the Company from time to time in Government securities or in securities guaranted or approved by Government, or in loans to other Companies or Banks, if the Directors shall deem fit to do so, and to vary such investments and to execute assignments and transfers, receipts and documents,

that may be necessary or expedient in that behalf;

(*e*) to set aside from time to time out of the net profits realized by the Company such a sum of money as the Directors shall think fit and to place the same to the credit of any one or more of the undermentioned accounts, or such other accounts, as the Directors may think fit, viz:

1. Reserve Fun Account.
2. Fire Insurance Fund Account.
3. Depreciation Reserve Fund Account.
4. Repairs and Renewals Fund Accounts, for (*a*) Buildings and (*b*) Machinery.
5. Research Fund Account.
6. Provident Fund Account.
7. Bad Debt Accounts.

(*f*) to authorise and empower the Managing Director and other Officers, for the time being, of the Company, or such other persons or persons as the Directors may think fit to exercise and perform all or any of the powers, authorises and duties conferred or imposed upon the Directors by those present;

(*g*) to give to any person employed by the Company a commission on the profits of any particular business or transaction or a share in the general profits of the Company, and such commission or a share in the general profits of the Company and such commission or share shall be treated as part of the working expenses of the Company; and

(*h*) and generally to do sanction and authorise all such matters and things as may be necessary to be done in and about conducting the affairs of the Company or carrying into effect all or any of the objects or powers of the Company as expressed in the Memorandum of Association, or in and about the execution of all or any of the powers herein before conferred upon the Directors.

Powers of Chairman and Managing Director: The Managing Director who is also the Chairman of the Board of Directors presides at the Board meetings. The Management of business of the Company is subject to general control and supervision of Directors vested in the Managing Director. The Board may confer such powers for such time on the Managing Director as they decide. The Managing Director has the power for and on behalf of the Company to invest its moneys in securities approved by the Board to endorse and transfer the stock receipts, stock debentures, securities, etc. The Managing Director under the supervision of the Board of Directors shall cause true accounts to be kept of the paid-up capital for the time being of the Company, of the credits and liabilities of the Company, commercial, financial and other affairs in order to show the financial state and conditions of the Company.

Praga Tools Corporation

Appointment: The Honourable Trustees of the Industrial Trust Fund, Hyderabad Government, are entitled to appoint three persons as the Directors of the Company.

Number of Directors: The present number of Directors is nine.

Qualifications: The Ex-Officio Directors, Directors nominated by Industrial Trust Fund, Debenture Directors, Technical Directors are not required to hold any qualification shares. For others holding of the shares of the nominal value of Rs. 10,000 at least is essential.

Disqualifications: Same as in the case of Mysore Sugar Company.

Tenure: The Ex-officio Directors and the Debenture Directors do not retire by rotation. 1/3rd of the other Directors retire annually in General Meeting of the Company.

Remuneration: The Board is empowered to fix the remuneration for every meeting of the Board.

Powers of the Directors:—

(*a*) to pay the costs, charges and expenses preliminary and incidental to the promotion, establishment and registration of the Company;

(*b*) to purchase or otherwise acquire for the Company, any property rights or privileges which the Company, is authorised to acquire at such price, and generally on such terms and conditions, as they think fit;

(*c*) to secure the fulfilment of any contracts or agreements entered into by the Company by mortgage or charge of all or any of the property of the Company, and its uncalled capital for the time being or in such other manner may think fit;

(*d*) to appoint and at their discretion remove or suspend, such managers, secretaries, officers, clerks, agents and servants for permanent, temporary, or special services, as they may from time to time think fit, and to determine their powers and duties, and fix their salaries or emoluments, and to require security in such instances and to such amount as they think fit;

(*e*) to invest and deal with any of the moneys of the Company not immediately required for the purposes thereof, upon such securities (not being shares in this Company) and in such a manner as they may think fit, and from time to time to vary or realize such investments;

(*f*) to give to any persons employed by the Company a commission on the profits of any particular business or transaction or a share in the general profits of the Company and such Commission or share of profits, shall be treated as part of the working expenses of the Company;

(*g*) to set aside out of the profits of the Company, such sums as they think proper, for depreciation or to a depreciation fund, Reserve Fund, or Sinking Fund, or any Special Fund, to meet contingencies, or to repay debentures or debenture stock, or for equalising dividends, or for special dividends or for repairing, improving, extending and maintaining any of the property of the Company;

(*h*) to enter into such negotiations and contracts; and

(*i*) the Directors from time to time and at any time, may establish any local Boards or agencies for managing any of the affairs of the Company.

Powers of Chairman and Managing Director: United Industrial Trust Corporation are the Managing Agents of the Company. The said Managing Agents may, subject to the supervision and control of the Directors, appoint and dismiss officers, with full powers to do such acts and things deemed necessary for carrying on the business and concerns of the Company. The Managing Agents may also with the sanction of the Board of Directors delegate all or any of their powers to such officers or other persons as they may see fit.

Nizam Sugar Factory

Appointment: The State Government is authorised to nominate two Directors.

Number of Directors: The present number of Directors is nine.

Qualifications: Qualification of a Director (other than Government Directors) shall be a holding of shares of the nominal value of Rs. 5000.

Disqualification : Same as in the case of Mysore Sugar Company.

Tenure: At every ordinary General Meeting one of the Directors (exclusive of the Government Directors and ex-officio, a special Director or Debenture Director) shall retire from office.

Remuneration: The Directors shall be paid out of the funds of the Company remuneration for their services, such sums, not exceeding Rs. 75/- for every

meeting of the Board attended by him, as shall from time to time be fixed by the Directors.

Powers of the Directors:

(*a*) to pay to the Trustees of the Hyderabad Industrial Trust Fund and Dhanrajgir Raja Narsingirji respectively all costs, charges and expenses paid or incurred by them or him respectively preliminary and incidental to the promotion, formation, establishment, incorporation and registration of the Company, and in making preparation for the establishment or working of the Sugar Factory of the Company or engaging sugar technologists or other experts or employees in connection with the affairs of the Company;

(*b*) to purchase or otherwise acquire for the Company, any property, rights or privileges which the Company, is authorised to acquire, at such price, and generally on such terms and conditions, as they think fit;

(*c*) at their discretion, to pay for any property, rights or privileges acquired by or services rendered to, the Company, either wholly or partially in cash in shares, bonds, debentures or other securities of the Company and any such shares may be issued either as fully paid up or with such amount credited as paid up thereon as may be agreed upon, and any such bonds, debentures, or other securities may be either specially charged upon all or any part of the porperty of the Company, and its uncalled capital, or not so charged;

(*d*) to secure the fulfilment of any contracts or agreements entered into by the Company by mortgage or charge of all or any of the property of the Company, and its uncalled capital for the time being or in such other manner as they may think fit;

(*e*) to appoint and at their discretion remove or suspend, such managers, secretaries, officers, clerks, agents, and servants for permanent, temporary, or special services, as they may from time to time think fit, and to determine their powers and duties, and fix their salaries or emoluments and to require security in such instances and to such amount as they think fit;

(*f*) to invest and deal with any of the moneys of the Company not immediately required for the purposes thereof, upon such securities (not being shares in this company) and in such manner as they may think fit, and from time to time to vary or realise such investments;

(*g*) to give, award or allow any bonus, pension, gratuity or compensation to any employee of the Company, or his widow, children, or dependents that any appear to the Directors just or proper, whether such employee, his widow, children or dependents have or have not a legal claim upon the Company;

(*h*) to give to any person employed by the Company a Commission on the profits of any particular business or transaction, or a share in the general profits of the Company and such commission, or share of profits, shall be treated as part of the working expenses of the Company;

(*i*) before recommending any dividend, to set aside out of the profits of the Company, such sums as they think proper, for depreciation or to a Depreciation Fund, Reserve Fund or Sinking Fund, or any Special Fund to meet contingencies, or to repay debentures or Debenture Stock, or for equalising dividends, or for special dividends; and

(*j*) the Directors from time to time and any time may establish any

local boards or agencies for managing any of the affairs of the Company;

United Electrical Industries

Appointment: The Government of Kerala are entitled to appoint not more than two Directors on the Company's Board.

Number of Directors: Until otherwise determined, by subject to resolution in a General Meeting, the number of Directors shall not be less than three or more than eleven (excluding nominated ex-officio, special or debenture Directors (if any).

Qualifications: Every Director (other than the ex-officio, special or nominated Director) shall hold shares of the aggregated nominal value of at least Rs. 5000/- in the capital of the Company.

Disqualifications: Same as in the case of Mysore Sugar Company.

Tenure: One-third of the Directors (excluding nominated, ex-officio Directors) retire from office at every Annual General Meeting.

Remuneration: Every Director (including the ex-officio, special or nominated and debenture Directors) attending the Board Meetings shall be entitled to a fee of Rs. 50/- per sitting of the Board of Directors or Committees of the Board. They are also entitled for travelling, hotel and other expenses. The Board may further award any special remuneration out of the funds of the Company to any Director residing abroad in the interest of the Company.

Powers of the Directors: The business of the Company shall be managed by the Directors who may pay all expenses incurred in getting up and registering the Company and may exercise all such powers of the Company as are not by the Companies Act or any statutory modification thereof for the time being in force or by these articles required to be exercised by the Company in general meeting, subject nevertheless to any regulation of these articles, to the provisions of the Companies Act and to such regulations being not inconsistent with the aforesaid regulations or provisions, as may be prescribed by the Company in general meeting; but no regulation made by the Company in general meeting shall invalidate any prior act of the Directors which would have been valid, if that regulation had not been made.

Powers of Chairman and Managing Director : The affairs of the Company shall be managed by the Managing Agents subject to the direction and control of the Board of Directors. Messrs. Associated Engineering Corporation Ltd. Trivandrum are the Managing Agents for a period of ten years.

Powers of Managing Agents: The Managing Agents, subject to control and direction of the Directors, have the powers to engage and dismiss officers; the general direction and management of the business of the company.

The Managing Agents shall not exercise the following powers:—

1 (*a*) make calls on shareholders in respect of moneys unpaid on shares in the Company;

(*b*) borrow moneys except within limits previously fixed by Directors at a Board Meeting;

(*c*) invest the funds of the Company; and

(*d*) make loans except within the limits previously fixed by the Directors at a Board Meeting.

2 The Managing Agents shall also not exercise their powers in regard to the following matters, except with the previous approval of the Directors:

(*a*) to appoint any person as Manager of the Company within the meaning of the Indian Companies Act;

(*b*) to engage on behalf of the Company any person who is either a relation of any Director whether of the managed Company or of the Managing Agency Company or a relation of any partner of the Managing Agents, or of a partner of a Director of the managed Company;

(*c*) to compound or sanction the extension of time for payment

of or satisfaction of any debt to the Company from any associates of the Managing Agents;

(*d*) to engage staff on behalf of the Company except staff whose remuneration is within the limits prescribed by the Directors of the Company;

(*e*) to purchase or sell capital assets on behalf of the Company except where the purchase or sale price is within the limits prescribed by the Directors of the Company.

Travancore Titanium Products

Appointment : The Travancore-Cochin Government, so long as it holds shares worth Rs. 15 lakhs, shall be entitled to nominate one Director. The Managing Agents shall be entitled to nominate two persons to serve on the Board of Directors. Notwithstanding that a Member or Director or their Company is already a Director of the Company by election—so long as any moneys are due and payable by the Company to the Industrial Finance Corporation of India, this Corporation shall be entitled to appoint two Directors. These Directors will be known as Corporation Directors.

Number of Directors: The present number of Directors is nine (including a Chairman).

Qualifications: The ex-officio Directors shall not at any time be subject to any share qualification. The other Directors also do not hold any share qualification.

Disqualifications: Same as in the case of Mysore Sugar Company.

Tenure: At the first ordinary General Meeting of the Company, the whole of the Directors shall retire from office and at the ordinary meeting in every subsequent year, one-third of the Directors (excluding the special and Corporation Directors) shall retire from the office.

Remuneration: The Directors shall be paid an amount as may be fixed by the Board but not exceeding Rs. 100 for each meeting of the Company.

Powers of the Directors: The Directors may from time to time appoint one or more of their body to the office of Managing Director or Manager for such term, and such remuneration (whether by way of salary, or commission or participation in profits, or partly in one way and partly in another) as they may think fit, and a Director so appointed shall not, while holding that office be subject to retirement by rotation, or taken into account in determining the rotation of or retirement of Directors, but his appointment shall be subject to determination *ipso facto* if he ceases from any cause to be a Director, or if the Company in General Meeting resolve that his tenure of the office of Managing Director or Manager be determined. Provided however that so long as any moneys are due and payable by the Company to the Corporation no remuneration by way of participation in profits of the Company shall be given to any Managing Director or Manager as provided herein without the Corporation's prior consent in writing had been obtained.

2. The Directors may arrange that any branch of the business carried on by the Company or any other business in which the Company may be interested shall be carried on by or through one or more subsidiary companies.

3. Without prejudice to the appointment of Managing Agents and to the position, rights and powers of such Managing Agents the Directors may establish any local boards or agencies for managing any of the affairs of the Company, either in India or elsewhere.

4. The Directors may from time to time and at any time by power of attorney appoint the attorney or attorneys of the Company.

5. Without prejudice to the appointment of Managing Agents and to the position, rights and powers of the Managing Agents, the Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures, debenture stock and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. Provided

that the amount for the time being remaining undischarged of moneys borrowed by the Directors for the purposes of the Company shall not at any time, without the previous sanction of the Company in general meeting, exceed the nominal amount of the authorised share capital of the Company, but no debt incurred or security given in respect of moneys borrowed in excess of the limit hereby imposed shall be invalid or ineffectual, except in the case of express notice at the time when the debt was incurred or security given that the limit hereby imposed had been exceeded. Provided, however that so long as any moneys are due and payable to the Industrial Finance Corporation of India no mortgage or charge shall be created on the assets of the Company mortgaged or charged to the Industrial Finance Corporation of India without the previous written consent of the Corporation.

Chairman and Managing Director: The Directors may elect a Chairman and determine the period for which he is to hold office.

Madras Industrial Development Corporation

Appointment: The Government of Madras are entitled to appoint three Directors.

Number of Directors: The number of Directors is eleven (inclusive of ex-officio Directors).

Qualifications: Not specified in the Articles of Association.

Disqualification: Same as in the case of Mysore Sugar Company.

Tenure: At the Annual General Meeting, one-third of the Directors (except the ex-officio Directors) retire from office.

Remuneration: No remuneration shall be paid to the Directors but for all meetings of the Directors (inclusive of meetings or Committees attended by them) each Director shall be paid allowance on the following lines, viz., sitting fee Rs. 25, railway fare (one air-conditioned class fare) plus mileage at one anna per mile.

Powers of Directors: The control of the Company shall be vested in the Directors and the business of the Company shall be managed by the Directors.

The Directors have the specific powers:—

(*a*) to purchase or otherwise acquire for the Company any property, rights or privileges which the Company is authorised to acquire;

(*b*) to secure the fulfilment of any contracts, agreements or engagements entered into by the Company by mortgage;

(*c*) to appoint and at their discretion remove or suspend officers and to determine their powers and duties and fix their salaries or emoluments and to require security in such instances and to such amount as they think fit;

(*d*) to invest and deal with any of the moneys of the Company not immediately required for the purposes thereof upon such securities (not being shared in this Company and in such manner as they may think fit and from time to time to vary or realize such investments);

(*e*) to enter into all such negotiations and contracts and rescind and vary all such contracts and execute and do all such acts, deeds and things in the name and on behalf of the Company as they may consider expedient for or in relation to any of the matters aforesaid or otherwise for the purposes of the Company;

(*f*) to make provisions for pensions, gratuities or compensation;

(*g*) the Company shall have a Technical Advisory Panel consisting of such number of persons as the Board may prescribe; and

(*h*) the Directors shall have power to appoint a Secretary for the Company subject to the approval of the Government and confer on him such powers authorities and discretions as the Board

may from time to time prescribe.

Chairman: The Government of Madras is entitled to appoint a Director as Chairman of the Board for a period of three years.

Technical Advisory Panel: The Articles of Association provide that the Company shall have a Technical Advisory Panel consisting of such number of persons as the Board may prescribe.

Secretary: The Directors have also power to appoint a Secretary for the Company subject to the approval of Government and confer on him such powers, authorities and discretions as the Board from time to time prescribe.

Tripura State Bank Ltd.

Appointment : One-third of the total number of Directors are nominated on behalf of Government of Tripura.

Number of Directors: Number of Directors not less than seven and not more than 15. The present number is 12.

Qualifications: The qualification of every Director other than the Director nominated by the Government of Tripura shall be the holding in his own name (10) shares of the Company of the face value of Rs. 100.

Disqualification : Same as in the case of Mysore Sugar Company.

Tenure : One-third of the Directors shall retire in every Annual General Meeting by rotation except the Government nominated Directors whose period of offices shall be determined by Government.

Powers of Director : The Board has the powers to:

(*a*) purchase or otherwise acquire for the Company any property;

(*b*) appoint Officers, Secretaries, Agents, Clerks, and servants, for permanent, temporary, or special services as they may from time to time think fit and to determine their duties and fix their salaries or emoluments and to require security in such instances and to such amount as they think fit; and at their discretion to remove or suspend such officers, clerks, secretary, agents or servants ;

(*c*) invest and deal with any of the moneys of the Company not immediately required for the purposes thereof upon such security and in such manner as they think fit and from time to time to vary or realise such investment;

(*d*) give any officer or other person employed by the Company a commission or the profits of any particular business or transaction or a share in the general profits of the Company and such commission or share of profits shall be treated as part of the working expenses of the Company.

(*e*) before recommending any dividend to set aside out of the profits of the Company such sums as they think proper as a Reserve Fund to meet contingencies or for equalising dividends or for such other purposes as the Directors shall in their absolute discretion think conducive to the interest of the Company, but until the amount of the Reserve Fund is equal to its paid-up capital, the amount to be set aside for this Fund shall not be less than 20 per cent of the profits; and also to invest the several sums so set aside (except the amount in the Reserve Fund) upon such investments as they may think fit and from time to time to deal with and vary such investments and dispose of all or any part thereof for the benefit of the Company;

(*f*) provide for the establishment of a Provident Fund on such terms and conditions as the Directors may lay down;

(*g*) authorise any Director, General Manager, or any officer of the Company, jointly or severally to open and operate on a current account on behalf of the Company

with any other Bank, Company, Firm or individual;

(*h*) authorise any Director, or the General Manager, to do all acts which the Directors are authorised to do on behalf of the Company;

(*i*) give the officers or other persons of the Company such bonus as they think fit;

(*j*) pay a commission not exceeding 5 per cent to any authorised or recognised person at any time for subscribing or procuring or agreeing to procure subscription for any share of the Company.

Management and Control: The Directors annually elect one of them as Chairman of the Board of Directors to preside over the meetings of the Board. The management and control of the Company is vested in the Directors assisted by a General Manager. The appointment of the General Manager, the terms and conditions of his appointment and his removal from office is subject to the approval of the Government of Tripura. The General Manager is entitled to be present at all meetings of the Board and Committees and take part in their deliberations and discussions and unless he is a Director shall not be entitled to vote.

The Kutch Transport Co., Ltd.

Appointment: The State Government has a right to appoint two Directors and the Managing Agents have also a right to appoint two Directors. The Chairman of the Managing Agency or his nominee shall also be a Director of the Company.

Number of Directors: The number of Directors shall not be less than four and not more than seven.

Qualifications: A Director does not require any qualification.

Disqualifications: Same as in the case of Mysore Sugar Company.

Tenure: The Directors nominated by Government and the Managing Agents may be removed from office in writing to the Company by the appointers.

Remuneration: As regards remuneration of a Director the amount shall not exceed Rs. 100/-. The exact amount may be fixed by Directors.

Powers of Directors: The Articles of Association do not provide any specific powers of the Directors except the general powers of management.

CHAPTER X

Control Boards

I

The following paper on seven Control Boards analyses their powers and constitution as set forth in the Resolutions (on Orders) establishing them:—

1. Bhakra Control Board
2. Hirakud Control Board
3. Nagarjuna Sagar Control Board
4. Chambal Control Board
5. Rihand Dam Control Board
6. Kosi Control Board
7. Koyna Control Board

Of these seven Boards, the first four were established in terms of resolutions of the Govt. of India, the fifth and sixth by orders of the U. P. and Bihar Governments respectively and the last one by a resolution of the Govt. of Bombay. Two of them viz, the Bhakra Nangal Control Board and the Chambal Control Board are in charge of inter-state projects. The Bhakra Nangal project covers Punjab and Rajashtan while the Chambal project covers Madhya Pradesh and Rajasthan. The Nagarjuna Sagar project was an inter-state project originally; but after the integration of the former States of Andhra and Hyderabad into the present Andhra Pradesh the project now covers only one State. The Hirakud project, though it covers only one State, is a Central Govt. project as the latter has been appointed by the Orissa Govt. as its agent for the construction of the project. The last three are wholly State projects.

II. Functions

The functions of the Boards are more or less the same. But it may be mentioned, that, in the case of the first four, they have been prescribed in greater detail than in the case of the other two; in the case of these two the Resolution of Order setting them up merely states that they are to manage, administer and supervise the execution of the project. The functions of the Bhakra Nangal Control Board may be taken as the general pattern of the functions of the other four boards. These functions are:—

(*i*) to scrutinise the estimate of the project prepared by Punjab, advise necessary modifications and recommend the estimate for administrative approval of the Government concerned;

(*ii*) to examine and approve from time to time the delegation of such powers both technical and financial, as it may be necessary for the efficient execution of the project to the Chief Engineers, Superintending Engineers and Sub-Divisional Officers engaged in the execution of the project;

(*iii*) to examine and, where necessary, to lay down specifications and schedule of rates for various classes of work with a view to sound and efficient execution of the project;

(*iv*) to approve all sub-estimates and contracts, the cost of which exceeds the powers of sanction of the Chief Engineers;

(*v*) to approve all proposals for award of work or supplies on contract other than these based on public tenders and on detailed quantitative estimates and works allotted on work order on schedule rates;

(*vi*) to frame rules as to delegation of powers and procedure for the purpose of carrying out its business.

(*vii*) to decide, after ascertaining the views of the Bhakra Advisory Board, the programme of construction of different parts of the project in all the three states,

keeping in view the funds available, the economics of the project and the desirability of obtaining quick results;

(*viii*) to decide after obtaining the views of the Bhakra Advisory Board, on the stage of development of water power and the withdrawals of water from the reservoir during the construction period for irrigation and power purposes with a view to securing best uses of water available; and

(*ix*) to receive monthly progress reports both as to works and expenditure in a prescribed form from the Chief Engineers reviewing the progress of different units of the project and lay down steps to be taken to expedite the work.

III. CONSTITUTION

(1) **Bhakra Control Board** (Headquarters Delhi).

This Board was set up according to a Resolution of the Government of India, in September, 1950. It consists of the following:—

1. Shri C. P. N. Singh
   Governor of Punjab,
   in personal capacity — *Chairman*
2. Secretary to the Government of India, Ministry of Irrigation and Power — *Vice-Chairman*
3. Joint Secretary, Ministry of Finance, Government of India — *Member*
4. Chairman, Central Water & Power Commission — ,,
5. Chief Engineer, Bhakra Dam — ,,
6. Secretary, Finance, Punjab. — ,,
7. Chief Engineer, Rajasthan — ,,
8. Chief Secretary to the Himachal Pradesh Government — ,,

The Board is in overall charge of all technical and financial matters relating to the construction of the project, the actual construction being carried out, under the direction of the Control Board, by the Chief Engineer concerned of the State in which the work lies. The respective Chief Engineers are allowed to contract for works, supplies and services at the direction of the Control Board, such contracts being executed on behalf of the State Government concerned.

The Board is assisted by a whole-time Secretary and a Deputy Secretary and other staff. The Chief Engineer concerned with any of the projects is invited to attend the meetings of the Board when matters relating to his part of the project are under consideration. Generally the Board meets once in a month.

(2) **The Hirakud Control Board** (Headquarters—Hirakud).

It was set up according to a Resolution of the Government of India in March. 1957. The Board consists of the following:

1. The Chief Minister of Orissa — *Chairman*
2. Secretary to the Government of India, Ministry of Irrigation and Power — *Vice-Chairman*
3. A representative of the Central Ministry of Finance — *Member*
4i The Chairman, Central Water & Power Commission — ,,
5. The Finance Secretary to Orissa Government — ,,
6. The Chief Engineer, — ,,
7. The Member, Board of Revenue, Orissa, Sambalpur — ,,
8. The Chief Engineer Hirakad Dam Project — ,,

The Board is in overall charge of the project including its technical and financial aspects. However, it has to work under the general supervision of the Government of India. The actual contruction work is carried out by the Chief Engineer of the Project who has been given powers to contract for works, supplies and services at the direction of the Central Board, such contracts being executed on behalf of the Government of India.

The Board is assisted by a whole-time secretary. There is also a Financial Adviser attached to the project. The latter and the Secretary to the Government of Orissa, River Valley Department, are also ordinarily invited to attend the meetings of the Board. The Chief Engineer to the Government of Orissa, concerned with any part of the project is also invited to attend the Board meetings as Adviser when matters relating to his part of the project are under consideration.

(3) The Nagarjuna Sagar Control Board (Headquarters—Hyderabad)

This Control Board was set up in June 1955. It consists of:

1. The Chief Minister of Andhra Pradesh — *Chairman*
2. The Minister of Finance — *Member*
3. The Minister for Irrigation and Power — ,,
4. A Joint Secretary, Ministry of Finance, Government of India or an alternate nominated by him — ,,
5. Chairman, Central Water and Power Commission — ,,
6. The Administrator, Nagarjuna Sagar Project — ,,
7. The Chief Engineer, Nagarjuna Konda Dam — ,,

The Board is in overall charge of the project, including its technical and financial matters. The actual work of construction is done by the Chief Engineer of the project, under the direction of the Control Board.

There is an Administrator, who is also a member of the Board appointed by the Central Government, in consultation with the State Government. This officer works in close liaison with the Chief Engineer and project revenue authorities of the State, and also advises and assists them in overcoming difficulties that may arise in the course of the execution of the project. He is also to ensure that there is no delay in land acquisition, localisation of Ayacuts, preparation of record of rights and rehabilitation of displaced persons and other cognate matters. He also advises the State Government of the economic aspects of the project and also ensure that progress on the engineering and developmental aspects is probably coordinated, and that there is no time lag between the completion of the dam and the utilisation of benefits.

The Board is assisted by a full-time Secretary and other staff. The Chief or Superintending Engineer in charge of canals also attends the meetings of the Board when matters coming within their purview are discussed.

(4) The Chambal Control Board (Headquarters—Delhi).

Set up in 1955 April. The Board consists of the following:—

1. The Deputy Minister for Irrigation and Power, Government of India — *Chairman*
2. The Minister in charge of Chambal Project, Madhya Pradesh. — *Member*
3. The Minister in charge of Chambal Project, Rajasthan — ,,
4. A Joint Secretary, Ministry of Finance, Government of India or alternate nominated by him. — ,,
5. Chairman, Central Water and Power Commission — ,,
6. Chief Engineer, Chambal Project, Madhya Pradesh — ,,
7. Chief Engineer, Chambal Project, Rajasthan Government — ,,

The Vice-Chairmanship of the Board is taken in rotation by the Ministers in charge of Chambal Project in Madhya Pradesh and Rajasthan. The Board is in overall charge of the project. Actual construction work is carried out under the direction of the Control Board, by the Chief Engineer concerned of the state in which the work lies except the work in respect of the construction of the Gandhi Sagar Dam and appurtenant works which lie in both the states, and done by the Chief Engineer, Chambal Project, Madhya Pradesh Government.

The respective Chief Engineers are also allowed to contract from works, supplies and services at the direction of the Control Board. The contracts in respect of all works are executed in the name of both the Governments.

The board is assisted by a wholetime Secretary and a Financial Adviser.

(5) The Rihand Dam Control Board (Headquarters—Lucknow).

This Board was set up in March 1954 in order to "manage and control the affairs of the Rihand Dam and Power Station project" by an order of the Government of Uttar Pradesh. It consists of:—

1.	Chief Minister, U.P.	Chairman
2.	Minister of Power and Finance U. P.	*Member*
3.	Minister of Irrigation and Information	,,
4.	Chairman, Central Water and Power Commission	,,
5.	Joint Secretary, Ministry of Irrigation and Power, Government of India	,,
6.	Joint Secretary, Ministry of Finance, Government of India	,,
7.	Chief Secretary to the Government of Uttar Pradesh	,,
8.	Commissioner Financial Affairs-cum-Secretary to Government of U.P., Finance Department	,,
9.	Secretary to Government of U.P., Irrigation and Power	,,
10.	Chief Engineer, Irrigation Department, U.P.	,,
11.	Chief Engineer, Electricity Department, U. P.	,,
12.	Private Secretary to the Chief Minister of U.P.	,,
13.	Vice-Chancellor, Roorkee University	,,
14.	Secretary, Planning Commission	*Observer*

In addition to these members, the Board is empowered to coopt one or more persons generally or in connection with any specific items on the agenda of a particular meeting of the Board. The Board has power to finally dispose of all matters relating to project requiring the order of the Government without referring to the Administrative Department or the Finance Department.

There is a whole-time secretary to the Board, who is an Engineer of the rank of the Superintending Engineer.

(6) Kosi Control Board (Headquarters —Patna).

The Kosi Control Board was set up by an order of the Bihar Government in September, 1954. It consists of the following:—

(*i*)	Chief Minister of Bihar	*Chairman*
(*ii*)	Irrigation Minister of Bihar	*Member*
(*iii*)	Dy Irrigation Minister of Bihar	,,
(*iv*)	Jt. Secretary, Ministry of Finance Deptt. of Expenditure, Govt. of India or his representative	,,
(*v*)	A representative of the Ministry of Irrigation and Power, Govt. of India	,,
(*vi*)	Chairman Central Water and Power Commission or his representative	,,
(*vii*)	Development Commisioner of Bihar	,,
(*viii*)	Chief Engineer, Kosi Project	,,
(*ix*)	Chief Administrator Kosi Project	,,

The Financial Adviser attached to the project, the Finance Secretary, Irrigation, Secretary and the Chief Secretary to the Bihar Government are ordinarily invited to attend the meetings of the Board.

The Board is in overall charge of the project, and functions under the general supervision of the State Government. The Chief Administrator, the Chief Engineer and the other Staff are appointed by the Bihar Givernment. Necessary powers are vested in them to contract for works, supplies and services, at the direction of the Control Board. Such supplies, services, etc. are executed on behalf of the Government of Bihar. The Chief Administrator is also the Secretary to the Board. Normally the Board meets once every two months.

(7) The Koyna Control Board (Headquarters—Bombay).

Set up in June 1954 by a Resolution of the Government of Bombay, the Board has the following as members:—

1. The Minister, Public Works Department, Bombay — *Chairman*
2. The Minister, Finance Department — *Member*
3. The Deputy Minister, Public Works Department — ,,
4. The Secretary, Finance Department — ,,
5. Joint Secretary, Government of India Ministry of Finance or alternate nominated by him — ,,
6. Chairman, Central Water and Power Commission — ,,
7. Joint Secretary, Government of India, Ministry of Irrigation and Power — ,,
8. The Chief Constructional Engineer, Koyna — ,,
9. Chief Engineer, Public Works Department (Irrigation) — ,,
10. Shri S. L. Kirloskar — ,,
11. Shri H. M. Hasram Premji — ,,

The Board is to administer and supervise the execution of the Koyna Project. The Board is empowered to sanction specific detailed items of expenditure within the limits of budget provision in each year and to make contracts and sanction tenders relating to matters which are beyond the limits of powers delegated to the Chief Engineer. It may also make variations in contracts and estimates in respect of matters which are beyond the competence of the Chief Engineer. The Board has also power to relax recruitment rules in regard to non-gazetted staff, to sanction establishment, grant higher starting pay etc. However, the Board has no power to pass the final orders in respect of these matters. The formal orders implementing the decisions of the Board are made by the Public Works Department of the Government after the Board submits the papers to the Department concerned. The Board is also prohibited from having any direct dealing with the public. Government, however, may entrust the Board with additional powers.

The Secretary, Public Works Department, who is a member of the Board, is also its Secretary.

CHAPTER XI

Departmental Enterprises

Ministry of Railways

TWO ENTERPRISES

The Chittaranjan Locomotive Works and the Integral Coach Factory at Perambur are two departmental enterprises under the Ministry of Railways. The administration of these undertakings is under the control of the Railway Board which is a statutory body constituted under the Indian Railway Board Act, 1905. The Railway Board functions as a Ministry of the Govt. of India and exercises all powers of the Central Government in respect of regulation, construction, maintenance and operation of Railways. The Constitution of the Railway Board gives the Board full freedom in shaping and carrying out the Railway policy. The Board functions as a corporate body and the members are functional in character. The Board consists of the Chairman, the Financial Commissioner and three members in charge of Staff, Civil Engineering and Transportation. The Chairman is ex-officio Secretary to the Government of India in the Ministry of Railways. The Financial Commissioner is also an ex-officio Secretary to the Govt. of India in the Ministry of Railways in financial matters.

The functions of each of the members are given below:—

1. *Chairman*: The Chairman is responsible for policy decisions which are put up to the Minister by him. The present Chairman of the Board also functions as a Member for Mechanical Engineering. He can over-rule the other Members of the Board except the Financial Commissioner who has a right to approach the Railway Minister and the Finance Minister in case of disagreement.

2. *Financial Commissioner*:

The Financial Commissioner's concurrence is essential for sanction of any proposal involving expenditure or affecting Railway Revenues. He has a right of direct access to the Finance Minister on any financial issues on which he does not agree with the views of the Railway Minister.

3. The Member (Civil Engineering), the Member (Transportation) and the Member (Staff) are the three functional members responsible for giving necessary technical guidance to the Administration in respect of the subjects for which they are in over-all charge. These Members are assisted by additional Members and also technical officers designated as Directors. The Directors are responsible for issuing instructions direct to the Railway Administrations. They are heads of their respective branches and keep liaison with the Railway Administration.

(a) Chittaranjan Locomotive Works

Introduction :

Prior to 1947, attempts to manufacture locomotives within the country were frustrated by foreign vested interests. After the attainment of Independence the Government of India decided on promoting as early as possible domestic manufacture of locomotives and set up the Chittaranjan Locomotive Works which turned out their first locomotive on the 26th January, 1950. The record of production has indeed been striking, as since its commencement in 1950-51 upto March 31, 1957 the total output amounted to 504 locomotives. The production was stepped up during 1955-56 to 129 locomotives as against the initially rated capacity of 120 average size locomotives. The Works are expected to turn out 168 locomotives during 1957-58 as against 156 in 1956-57. This shows remarkable advance towards self-sufficiency. The factory has also manufactured 120 locomotive boilers during the year 1956-57 and 338 W. G. boilers up to March 31, 1957.

Organisation :

A General Manager is in the overall charge of the Chittaranjan Locomotive

Works who is assisted by a Chief Mechanical Engineer, a Deputy General Manager and four other officers of the Junior Administrative rank including a Financial Adviser and Chief Accounts Officer and a number of senior scale and junior scale officers.

Functions and Powers of General Manager:

The General Manager is the administrative head and exercises over-all supervisory control over all departments and coordinates their working. The Railway Board has delegated wide powers to the General Manager in matters relating to establishment, works etc. He has the full power to sanction expenditure and delegate his powers to authorities subordinate to them subject to the observance of certain rules and the canons of financial propriety and also subject to the provisions of the existing codes, rules and regulations. The work is distributed functionally to different departments viz., the Mechanical Engineering Department, the Finance and Accounts Department, the Stores Department, the Medical Department, and the Personnel Department.

The previous sanction of the Railway Board is necessary in the following cases;

(1) creation and abolition of permanent Gazetted post and alteration of the scale of pay of a service or of a post;

(2) creation of a non-Gazetted post on a rate of pay in excess of Rs. 500 per mensem except in the case of employees entitled to old scales of pay when the limit will be Rs. 600/- per mensem;

(3) write-off of amounts due to the Railway otherwise than when they are irrecoverable in excess of Rs. 10,000 in each case ;

(The General Manager, has the power to write off losses of cash up to Rs. 50,000 each but all cases involving loss of more than Rs. 2000 each should be reported to the Railway Board through an annual Statement. However, every important case should be brought to the notice of the Railway Board as soon as possible after its discovery and when the loss involved does not exceed Rs. 2000/- the case need not be brought to the notice of the Board unless it presents unusual features or reveals serious defects in procedure).

(4) Expenditure on rolling stock or surveys not provided in the sanctioned Budget for the year or carried forward from the sanctioned budget of any previous year;

(5) expenditure on other works not provided in the sanctioned Budget for the year or carried forward from the sanctioned budget of any previous year except on:

(*a*) works costing not more than Rs. 1 lakh each provided that the total lump sum provided in budget for such works is not exceeded; and

(*b*) works costing above Rs. 1 lakh but not more than Rs. 3 lakhs each provided that the total commitment as well as the provision made in the budget for works costing over Rs. 1 lakh each are not exceeded.

(6) expenditure on buildings not essential to Railway working such as existing Railway School, Institute Hospital and Dispensaries etc. which is in excess of the amount provided in the sanctioned budget for each financial year;

(7) sale of any item of the authorised rolling stock or any other railway asset costing over Rs. 1 lakh;

(8) write-off of losses of cash, stores, tools and plant:—

(*a*) exceeding Rs. 25,000 in value when a railway employee is in any way responsible for the loss;

(*b*) exceeding Rs. 50,000 in value when a railway employee is not in any way responsible for the loss.

Financial Control :

A separate Financial Adviser and Chief Accounts Officer in Junior Administrative rank is posted at the Chittaranjan Locomotive Works and the Integral Coach Factory. The Organisation of the Accounts Department is under the control

of the Financial Commissioner of Railways. The Department is responsible for the internal check of transactions affecting the receipt and expenditure of the Railway, helping the administration and executive officers of the Railway with advice whenever required or found necessary in all matters involving Railway finance; seeing that there are no financial irregularities in the transactions of the Railway and maintaining the accounts in accordance with the prescribed rules. The Financial Commissioner is full member of the Railway Board and is ex-officio Secretary to Government in the Ministry of Railways. No expenditure can be sanctioned without his concurrence. He has direct access to the Minister for Finance or any financial issue on which he differs with the views of the Minister of Railways. The Financial Commissioner is assisted by one Additional Member, one Director (expenditure), four joint Directors incharge of Expenditure, Establishment, Accounts, Planning and Procurement and three Deputy Directors besides, a number of staff at lower levels.

The Financial Adviser and Chief Accounts Officer who is one of the principal officers functions in a dual capacity. He has two separate organisations under him. One is to help him in his function of financial scrutiny of all proposals for staff expenditure and to give him financial advice and the other one for the internal check on receipts and disbursements in pre-audit and the compilation of accounts. The Financial Adviser also acts as an Adviser to the General Manager on financial matters. In regard to technical accounting matters he cannot be over-ruled without reference to higher authorities. As regards financial advice which involves scrutiny of the financial implications of all proposals involving expenditure and or receipts, before the same is incurred or commitments entered into, financial concurrence is required to be accorded by F.A. & C.A.O. Sanctions to proposals are accorded by the General Manager or the Principal officer concerned within the powers delegated to them with the concurrence of the Finance Branch controlled by F.A. & C.A.O. Though technically, the financial powers have been delegated to the General Manager, they are, by Convention, at present exercised with the concurrence of the Financial Adviser. The F. A. & C.A.O., like other Heads of Departments is administratively subordinate to the General Manager, who writes confidential Reports on his work as Administrative officer under his control. He is not independently reported on professionally by any higher authority. The reports recorded by the General Manager or the Chief Administrative officer are submitted to the financial Commissioner and other Members of the Railway Board for information.

Parliamentary Control

The Control of Parliament over Railway finance and policy is exercised as follows:

1. Interpellations and Resolutions and discussion when the Budget is presented and the Railway Demands are voted upon;
2. Through the Committee on Government Assurances, Promises, undertakings etc. given by Ministers on the floor of the House of Parliament;
3. Through Public Accounts Committee;
4. Through Estimates Committee;
5. Through Committee on Subordinate Legislation ; and
6. Through Members of Parliament serving on National Railway Users Consultative Council

(b) Integral Coach Factory, Perambur

In order to meet the increasing requirements of broad gauge Coaching stock on Indian Railways without resorting to imports the Government of India decided in 1948 that a separate Railway Coach Building Works should be established for the manufacture of the most modern type of integral design Coaches. The Government entered into a technical aid agreement with the Swiss Car and Elevator Manufacturing Corporation Limited. of Switzerland in 1949. The construction of the factory was taken in hand in 1952 at Perambur and the

first assembled Coach was turned out in October, 1955.

A production target of 350 unfurnished broad gauge Coaches has been set up for this factory. The sanctioned estimated expenditure amounts to Rs. 7.35 crores. The factory is the largest of its kind in Asia and one of the largest in the World. The first 200 Coaches would be generally assembled from imported components but the indigenous element will increase gradually and it is expected to produce completely indigenous Coaches at the rate of 350 per year from 1960 onwards.

Organisational Set Up

The Chief Administrative Officer of the factory who is of the same rank as the General Manager of Chittaranjan Locomotive Works is in over-all charge of the factory. He is assisted by two Deputy Chief Mechanical Engineers, a Deputy Controller of Stores, a Deputy Financial Adviser and Chief Accounts Officer of the Junior Administrative Service and various other officials in charge of Administration, Civil Engineering, Electrical and Railway Protection force.

Functions and powers of the Chief Administrative Officer are the same as that of the General Manager of Chittaranjan Locomotive Works. He is also responsible to the Railway Board. He exercises all supervisory control on all departments and coordinates their working and is responsible for efficient management.

II. THE MINISTRY OF DEFENCE ORDNANCE FACTORIES

Introduction

The Ordnance factories were originally established in India as subsidiaries to the Royal Ordance factories in United Kingdom which supplied them with most of the essential ingredients of production. However, during the last World War, the scope of the factories was considerably increased. Since the Independence the policy of the Government has been to achieve self-sufficiency in respect of production of essential defence stores. The Defence Ministry proposes to spend about Rs. 40 crores on new projects of as wll as replacement-cum-modernisation of Plant and Machinery in Ordnance Factories during the period of the Second Five-Year Plan. It is estimated that the annual production of the Ordnance factories meets 40 to 50% of the requirements of Army and 20% to 30% of the Navy and Air Force respectively. The Civil production has also been undertaken which includes items such as Small Arms, Ammunition, Chemicals, optical and scientific stores, small tools, Machine Tools, Metals, forgings, castings, Miscellaneous Engineering Stores, Wood Works etc. The value of these items amounted to Rs. 445-93 lakhs in 1955-56. During last year it is estimated that the out-put of non-defence and Civil trade work would be of the same order.

There are at present 20 Ordnance and clothing factories in India of which the Ordnance factory, Wadala has been placed on 'care and maintenance basis' from early 1956 due to considerable reduction in the services requirements of jerricans which this factory was producing.*

*The following are the various Ordnance Factories set up under the control of the Ministry of Defence.

1.	Metal and Steel factory	Ishapore	West Bengal
2.	Rifle factory	Ishapore	West Bengal
3.	Gun & Shell factory	Cossipore	West Bengal
4.	High Explosives factory	Kirkee	Bombay
5.	Gun Carriage factory	Jubbulpure	Madhya Pradesh
6.	Ammunition Factory	Kirkee	Bombay
7.	Cordite factory	Aruvankadu	Madras
8.	Ordnance factory	Khamaria	Madhya Pradesh
9.	Clothing factory	Shahajahanpur	U. P.
10.	Ordnace factory	Katni	Madhya Pradesh
11.	Ordnance factory	Kanpur	U. P.
12.	Small Arms factory	Kanpur	U. P.

13.	Ordnance factory	Ambernath	Bombay
14.	Ordnance factory	Muradnagar	U. P.
15.	Harness and saddlery factory	Kanpur	U. P.
16.	Ordnance factory	Dehradun	U. P.
17.	Ordnance factory	Bhusaval	Madhya Pradesh
18.	Machine tool Proto-type factory	Ambernath	Bombay
19.	Ordnance Parachute factory	Kanpur	U. P.
20.	Ordnance factory	Wadala	——

ORGANISATIONAL SET UP

Defence Production Board

The Ministry of Defence has set up a Defence Production Board in September, 1955 with the main object of co-ordinating research, development and design activities of the three Services (Army, Navy & Air Force) with production in the Ordnance factories and securing effective liaison with the Civil Industry for meeting defence requirements. The Board is authorised to deal with all policy and important matters relating to production in the Ordnance factories. The Board consists of the following members:—

1. Minister for Defence —*Chairman.*
2. Defence Secretary—*Vice-Chairman.*
3. Controller General of Defence Production
4. Master General of Ordnance
5. Air-Officer in-Charge, Tech. & Equipment Services Air Headquarters.
6. Chief of Material, Naval Headquarters.
7. A senior representative of the Ministry of Finance (Defence)
8. Director General, Ordnance factories.
9. Scientific Adviser to the Minister for Defence.
10. A Deputy to Scientific Adviser.
11. A Deputy to the Controller General —*Secretary of the Board.*

The Board met four times during 1956-57 and took important decisions to overcome bottlenecks in production in Ordnance factories by streamlining the procedures for placing of indents on the Director General of Ordnance factories, and for the procurement and supply of materials required by the Ordnance factories. The decisions of the Board included expansion of the existing Ordnance factories and setting up of new Units.

As a result of the experience gained with the working of this Board over a period of one year, the Board and its associated Committees have been recently reorganised in order to secure greater clarity of functions and responsibilities of the different Committees. The three reconstituted Committees of the Production Board with the broad outline of their functions are as follows:—

(*a*) **Defence Production Advisory Committee.** This Committee is to secure effective liaison with the Civil Industry for meeting defence requirements and to suggest ways and means for the utilization of idle capacity in the Ordnance factories. The Minister for Defence is the Chairman of this Advisory Committee. Besides the members of the Defence Production Board, the Committee consists of one representative each from the Ministry of Railways, Labour, Commerce aud Industry and Works, Housing and Supply. It also includes private industrialists as may be invited from time to time.

(*b*) **Defence Production and Supply Committee**:—This Committee has been set up with the objects of exploring the possibilities of establishing indigenous production of stores at present imported from abroad and to make recommendations on problems regarding stocking of raw materials, allocation of priorities in the production of stores, mobilisation plans for Defence Production and the removal of bottlenecks in production.

Composition of the Committee:

1. Controller General of Defence Production — *Chairman.*

2. Scientific Adviser to the Ministry of Defence.
3. Master General of Ordnance.
4. Chief of Material, Navy.
5. Air Officer-in-charge, Technical & Equipment Services Air Headquarters.
6. Additional Financial Adviser
7. Director General of Ordnance factories.
8. Director General of Supplies and Disposals.
9. Chief Industrial Adviser, Ministry of Commerce & Industry .
10. Director of Co-ordination.
11. Director of Production—*Secretary*.

(*c*) **Defence Research and Development Committee**: The Committee has been set up to examine the progress of research and development projects, to co-ordinate research programmes of the Services with the national programmes and to allocate priorities to projects.

Controller General of Defence Production

The Chief executive of the Defence Production Board and the administrative head of the organisation is the Controller General of Defence Production. He is of the status of a Joint Secretary to the Government of India to be in official heirarchy next to the Defence Production Board. His over-all responsibility is to coordinate research development and design activities of the three Services with the production in Ordnance factories and to secure effective liaison with Civil Industry for meeting Defence requirements. He is an important member and the executive authority of the Defence Production Board and its three committees. The Headquarters Organisation of the Controller General of Defence Production started functioning from March, 1956.

Director-General of Ordnance Factories

The Ordnance and clothing factories are administered and controlled by the Director General of Ordnance factories whose headquarters office is located at Calcutta. He is responsible to the Ministry of Defence through the Controller General of Defence Production for the management and operation of the factories. He controls a very big organisation consisting of about 67,000 men, the annual out-turn of which amounts to Rs. 15 crores approximately. He is assisted by two Deputy Directors General. One of them is responsible for production matters and the other is incharge of administration of factories. The nine Asstt. Directors-General who are in charge of different branches of production deal with all matters of policy, difficulties and problems of production of important stores, civil trade work, planning for emergency, development of new and important stores, general production control, etc.

Functions and Powers of Director General

The orders for service stores together with the design particulars are placed by the Services on the D.G.O.F. who allocates the work to different factories depending on the nature of the job and also issues instructions to factories concerned regarding provision of components and materials required in manufacturing. The coordination of the production activities of all factories including those producing similar stores is done in the D.G.O.F's office by a production group which is responsible for planning. It is also responsible for watching the timely execution of orders placed on Ordnance factories.

Most of the powers which have been vested in the Director General in regard to matters of recruitment, purchase of stores, plant and machinery etc. are exercisable only subject to the concurrence of the Deputy Financial Adviser (factories). The Director General of Ordnance factories can, at his discretion, fill up vacancies of apprentices to a maximum of 20% in a year. He is also authorised to sanction the creation of temporary posts (except Gazetted Posts) up to a period of 2 years. He is empowered to recruit all staff pertaining to non-Gazetted and

non-industrial (other than class IV) categories. The local purchase powers of the Director-General in respect of stores, plant and machinery entitles him to spend up to Rs. 10,000 only for items which have been previously concurred in by the Deputy Financial Advires (factories).

Statistical Quality Control Unit

A Statistical Quality Control Unit was formed under the Director-General of Ordnance factories in full Complement from January, 1956. The Unit has carried out a number of investigations into production problems and arising out of these, it was possible to effect improvements in some of the production processes which have proved beneficial both from the point of view of the technique of production as well as from the point of view of the cost of manufacture. The Unit also conducted two training courses last year in order to create quality consciousness amongst the factory personnel and to teach some basic ideas of statistical quality control for effecting improvements in their production processes.

Organisation of an Ordnance Factory

Each Ordnance factory is under the charge of a Superintendent. In case of a small factory the Works Manager is in charge of it. The Superintendent is empowered to make provision by local purchase of items costing not more than Rs. 10,000 per item based on known requirements for three months at a time. In order to avoid delays in procurement of nationals, the Superintendent of factory is authorised to place indents directly on the Director General, Supplies and Disposals for items costing upto Rs. 1 lakh per item with a copy to Director-General of Ordnance factories. The Superintendent is also empowered to arrange disposal of surplus stores valued at not more than Rs. 5000/- in respect of the category and waste products and scrap irrespective of the value. The demand for plant and machinery, new as well as on replacement account, is initiated by the Superintendent of the the factory concerned which has to be scrutinised by the D.G.O.F.

FINANCIAL CONTROL

Deputy Financial Adviser (Factories)

The Deputy Financial Adviser (factories) has the financial control over the activities of the Ordnance factories. He represents the Financial Adviser (Defence) and is posted at the Headquarters of the Director General of Ordnance factories. He renders advice on financial matters to the D.G.O.F. and to Ministry of Defence and also scrutinises proposals put forward by them. All the proposals for expenditure by the D.G.O.F. have to be first concurred by the Deputy Financial Adviser. He watches the progress of expenditure against Budget Grants and allotment and examines important irregularities. On all important matters of policy, the Deputy Financial Adviser consults the Additional Financial Adviser.

Controller of Defence Accounts (Factories)

He is responsible to the Ministry of Finance (Defence) through the Controller-General of Defence Accounts and the Financial Adviser (Defence) for all accounting matters etc. pertaining to Ordnance factories. His office is attached to the office of the D.G.O.F. at Calcutta*. He has a branch officer attached to each factory to tender financial advice to the Superintendent. The Branch Officer maintains store accounts, wage records and prepares wage rolls for labour. He is also responsible for audit of local purchase, maintenance of cost and production cards and internal audit.

Annual Accounts

The Annual Accounts of the Ordnance factories which contain details of their production accounts, statements of assets and liabilities, capital accounts, stores account etc. are marked 'confidential' and are not published in the Commercial Appendix to the Appropriation Accounts of the Defence Services.

* He is responsible for the compilation and audit of the store and production accounts of the Factories.

APPENDIX I

Summary of Recommendations of the Estimates Committee : Companies

Ninth Report :

General

1. (*i*) A review should be made forthwith of the general organisational set-up of the various public Corporations and Undertakings;

(*ii*) There should be a cadre of capable men drawn from business, commerce, industry and trade who have given good account of themselves in the various spheres of activities and State Undertakings must be entrusted to them to be run on efficient business principles and practices. This should be in the nature of an All India Service and designated as "Indian Commercial and Industrial Services" as envisaged in the statement regarding the Industrial Policy of the Government of India which was laid on the Table of the House on the 6th April, 1948;

(*iii*) The present practice of appointing Officers from services either on the Board of Directors or as Managing Directors should be done away with and in any case the Secretary or the Joint Secretary of Ministries who are concerned with advising the Minister or the Government on matters of policy and otherwise to keep effective control on the various activities of the Ministry should not be associated with the day-to-day execution of their policies either in connection with State Undertakings or otherwise;

(*iv*) The State Undertaking should be considered as a separate entity from the administrative Departments concerned and should be given full measure of autonomy within the framework of the Statute and a careful watch should be kept to see that the Undertaking is fulfilling its role efficiently and properly as is assigned to it;

(*v*) It should also be considered whether a Board on the lines of the Railway Board may not be constituted for each Industry with men of experience in that business;

2. It would be in line with the spirit of the Constitution and sound financial propriety if Commercial Auditors are appointed by the Comptroller and Auditor-General to audit State Undertakings and the Audit Report is submitted by them to the C. & A. G. who shall cause the Audit Report to be laid before the Parliament along with the Balance Sheet and Profit and Loss Accounts of the Undertaking.

3. The Committee draw attention of the Government to the views of the Comptroller and Auditor-General which were incorporated in the Third Report of the Public Accounts Committee and suggest that early steps should be taken to lay down a clear procedure in regard to the canalising of moneys through the Consolidated Fund.

4. It should be the duty of the Comptroller and Auditor-General to see that every Public Undertaking maintains accounts in the prescribed manner and he should draw pointed attention to any defects in procedure and also make a report on the appraisal of the work done by the Undertaking on the basis of the conclusion drawn from the Accounts and Audit Report.

5. Such reports of the Comptroller and Auditor-General should be presented to the Parliament and the Government promptly so that the progress of the Undertakings is taken stock of in proper time

and appropriate action taken to set right any defects whatever they may be. He should, among other things, suggest the directions in which improvement is necessary or desirable in order that maximum benefit accrues from the operation of the Undertaking.

6. No business Undertaking will be a success unless staff highly specialised in Cost and Works Accountancy are posted from the very start.

7. Government should take early steps to set up an Institute of Cost and Works Accounts and to train sufficient number of men in this line with the modern and up-to-date methods suited to the various types of Undertakings.

Thirteenth Report: Sindri Fertilisers, Hindustan Cables, Hindustan Housing Factory and Nahan Foundry

1. Now that a large number of State-owned factories have gone into production and that their products including their by-products are available for distribution and sale, it should be examined as to how far the requirements of Government departments and State-owned concerns should be met directly by the products of these State-owned factories and how far special preference should be given to the Government Departments in such a distribution of the products.

2. The D.G.S. & D. or the Central Purchasing Organisation which may replace the present set-up, should keep themselves completely informed of the requirements of Government agencies and the extent to which they are available from State industries and effect a proper co-ordination between supply and demands.

3. The Committee appreciates that, unless strict business principles are adhered to in all arrangements of supply between State Undertakings and Government Departments and Agencies, delays may occur in finalising the provisional orders of Government Departments. The Committee therefore, recommend that even in the contemplated re-organisation of the distribution arrangements, strict business principles, such as prompt payments by cash, provisional orders to be followed quickly by confirmed orders, first come first served, etc. should continue to be adhered to.

4. The Committee recommend that proper cost accounting should be done and the actual cost of production of each of the by-products should be worked out.

5. The technical staff for the Urea and double salt plans should be sent to Italy sufficiently early so that they may study every aspect of work right from the actual fabrication of the plant to its assembly, erection and working. If this is done then it would perhaps be easier for them to handle a break-down, being familiar with every part of the Plant, as well as all the aspects of its working. In the event of further expansion on similar lines such training would stand in good stead. Technical know-how it is lacking in this country and Government should seriously consider how best to build it up, even if it means some additional expenditure.

6. The present position of supply of spare parts is not satisfactory. In order to avoid any breakdown of production for want of spare parts the following suggestions are made:

(*i*) The Company should explore all avenues for getting the spare parts produced in India itself. Constant endeavour must be made in this direction either through direct contracts with the Commercial Organisations or through advertisements.

(*ii*) A larger stock of spare parts should be built up.

(*iii*) It may be examined whether it would be possible to enter into agreements with supplier of original machinery for the supply of spare parts.

(*vi*) The capacities of the various major engineering works should be known to the Company so that in case of any emergency a part may be got manufactured or repaired without delay,

(*v*) The Company should find out the other Government organisations

which use similar equipment using similar spare parts so that in an emergency a spare part may be taken on loan till those on order from abroad arrive.

(*vi*) The factory should itself undertake as far as possible the manufacture of spare parts which are not available elsewhere or connot be got manufactured elsewhere more cheaply.

7. Proper storage facilities for the stores should be provided.

8. The terms of agreement between the D.V.C. and the Sindri Fertilisers Ltd. in regard to supply of power by the latter from its Power House to the former requires to be reviewed.

9. The Indian Council of Agricultural Research is the proper agency to publicise the uses of fertilizers and to carry the information to the cultivators in the field. The Committee recommend that the publication of the "Sindri News" should be stopped and the question of retrenching the publicity department should be examined. A few persons may be retained for conducting visitors to the Works and for showing them round.

10. The Ministry of Defence should take a decision on the question of the disposal of the Methanol plant early.

11. The responsibility for storage of fertilizers on a regional basis should be undertaken by the State Governments. The Committees were informed that even if the State Governments merely utilised their existing storage facilities fully it would go a great way in solving the problem.

12. Sufficient buffer stocks should be maintained at different points in the States so that the cultivator may be guaranteed his supplies of fertilisers whenever he requires them.

13. As far as possible, distribution in rural areas should be done through the panchayats, the Co-operative Societes, the Community, Projects and the National Extension Service Schemes and other development agencies. The whole system of distribution should be carefully examined and adjusted in such a way that the farmer can obtain whatever quantity of fertilisers he requires with the least amount of difficulty.

14. Proper care should be taken to render correct advice to the cultivators, in this regard. Proper research asto the suitability of the various fertilisers to the various soils and to the proper methods of their use should be conducted and wide publicity should be given to these matters throught the I.C.A.R. Research should be undertaken not only with regard to the use of the chemical fertilisers but also on the use of organic and country-made manure.

15. In appointing the Members of the Board of Directors Government should see that the agricultural interests who are ultimately the consumers of the product of factory are given due representation and that at least one member of the Board of Directors is chosen from such interests.

16. The *Adibasis* form a large part of the local population in the factory area and they should, therefore, along with others be given full opportunities for training and service in the factory. The educational institutes attached to the factory should also as far as possible be open to the children of the people in the neighbourhood including the *Adibasis* who may not be employees of the factory, as a measure of welfare and the improvement of the community.

17. In planning the expansion of the Hindustan Cables Ltd., the need for establishing a foreign market for those goods, specially in the countries in South and South-East Asia should be borne in mind. Government may examine whether the factory can in future undertake three shifts to meet all the requirements.

18. Government should examine as to how far it would be possible for the Hindustan Cable Ltd., to do away with the establishment of a workshop of its own and meet their requirements from the Chittaranjan Locomotive Workshop, which is nearby, and has considerable capacity.

19. The Committee understand that valuable copper ores are available in abundance in Rajasthan. Urgent action should be taken by the Government for the development of the copper ores with a view to extracting copper of the required degree of purity as a part of the industrial development plan in the Second Five-Year Plan.

20. A number of raw materials are required during various stages of manufacture of cables and the lack of any one of these will create a break in the chain thus upsetting production totally. As some of these raw materials are imported from abroad, increased efforts should be made by Government to see that all the raw materials required by the factory are produced in the country, and that the factory is not dependent on imports for its requirements.

21. As far as possible purchases should be made through the Central Purchasing Agency of the Government of India. In order to overcome the difficulty of delays on the part of the D.G.S. & D. indenting for stores should be done sufficiently well in advance.

22. Consumption of stores should be carefully checked and wastages discouraged. Control should also be exercised over stage-wastages. Checks must be exercised not only by the Heads of the various departments but by the Managing Director himself. Regular charts may be maintained so that wastages at any stage may be noticed easily and remedial action taken.

23. Strict business principles of sale and purchase should be observed between a Government Department and a State Undertaking, and no indenting should be made for materials unless it is proposed to remove them as quickly as possible, when they are ready for supply. All payments should be made promptly and in cash.

24. Construction of buildings, including residential accommodation for the staff, should be undertaken by the Company itself directly instead of through the C.P.W.D. so that effective supervision is exercised thereon and the work is done quickly.

24. The personnel for the future requirements of the factory should be recruited early and trained thoroughly so that no difficulty is experienced when the expansion actually takes place.

25. There is a vital need for a good costing organisation. Proper cost accounts should be maintained.

26. Standards of output should be laid down for the skilled labour and the technical personnel and a constant efficiency drive carried on to see that these standards are bettered. A reward or prize for better output may also act as an impetus for increased efficiency. Statistics may be obtained from the S. T. C's. factory in England for the sake of comparison and improvement.

27. Action should be taken to expedite disposal of surplus stores of the Government Housing factory to close down the establishment at present maintained for their custody, disposal, etc.

28. A Chartered Accountant may be appointed to examine and report on the Financial affairs of the Company.

29. The Nahan Foundry is a concern of local importance and should more appropriately be owned by the State Government. As such the possibility of transferring the ownership of the Foundry to the Himachal Pradesh Government on such terms as might be mutually agreed to between the two Governments should be examined.

If for any reason, however, the Himachal Pradesh Government are not prepared to take over the Foundry, the Central Government should continue to run the Foundry till such time as alternative occupation is found for those inhabitants of Nahan who are dependent on this Foundry for their living.

30. There rate of commission paid to commission agents should be brought down to a more reasonable level.

31. In view of the general financial position of the Foundry no large capital investment should be made so long as the new items of manufacture are in the experimental stage.

32. The present location of the Nahan Foundry offers scope for employment

to the local people and it would result in their being deprived of these facilities if the factory is shifted to Ambala. The Foundry may, for the time being, be allowed to continue to function at Nahan.

33. Expansion scheme undertaken by the Nahan Foundry should be so arranged that self-contained units of development are set up in Ambala.

34. Gratuity rules and labour welfare measures as applicable to other factories should also be made applicable to this Foundry.

Fourteenth Report:

Hindustan Machine Tools and Hindustan Steel

1. With a view to place the future of the Machine Tools Industry both in the public and private sector on a firm basis, Government should immediately examine (*i*) the question of comparative efficiency and price of the lathes produced by H.M.T.F. with those of the private sector, (*ii*) the demand for lathes in the country and the planning of production of the H.M.T.F., and (*iii*) clear up doubts and uncertainties that at present prevail by a clear statement of policy and programme.

2. The post of Secretary to the Board of Directors of H.M.T.F. should be retrenched and the important part of his duties assigned to the Chief of Finance and Administration, the minor ones being entrusted to the Managing Director's Private Secretary.

3. The Hindustan Machine Tools Factory should work as a complementary unit to the existing factories, and a coordinated programme for the production of the various types of machine tools which are either manufactured by the existing units or are capable of being manufactured by the existing units with some assistance should be drawn up in consultation with the indigenous industry.

Sixteenth Report:

General

1. At least 25% of the share-capital of Joint Stock Companies working State undertakings should be available for subscription by the public.

Government should also, while inviting private capital fix a ceiling for individual holding of shares, as also on any dividends that might be declared by such undertakings, so that individual or group monopolies and other abuses of the kind may be avoided.

2. The system of appointing Boards of Directors for State undertakings should be done away with. Instead, the management of the undertaking should be entrusted to a Managing Director or a Board of 3 or 4 experienced Managing Directors, depending upon the size and importance of the undertaking. Members should be chosen for their experience in financial matters and in the technical side of the undertaking. The Chairman and members of such Board should work collectively and on a functional basis. The Chairman should have, in exceptional circumstances, and where conditions demand, sufficient power to exercise his discretion, so that there is no delay or waste of expenditure.

In whatever matters the Board may be responsible to the Minister, there should be a direct relationship between the two, and the procedure, as it is sometimes noticed, of treating a Joint Stock Company as a department, subject to the control of the Minister, should not be encouraged.

An Advisory Body should be constituted for the purpose of advising the Managing Director on various matters from time to time.

The Advisory Body will not have powers to decide matters of policy or to give orders to execute any of their directions. The Advisory Body will invariably send a copy of their report to the Minister concerned for information. The Advisory Body will have the right of asking or calling for information on all matters excepting those which have been specified by the Minister as being of a secret nature. The Advisory Body will have also the right of unlimited criticism. The Advisory Body will be kept informed by the Managing Director, or Directors through the Progress Reports,

Balance Sheets, development plans and any other schemes, which the management may have in view.

The Advisory Body will consist of representatives from business, labour or workers, consumers and the Parliament or Local Legislatures. The appointments will be made by nomination by Governments or by election, wherever there are recognised unions or associations of labour or consumers or other interested groups. Members of Parliament or Local Legislatures will be appointed to such bodies by election by the Houses concerned. Action may be taken to make the necessary, statutory provisions required thereof.

3. A Commercial Undertaking should be given a free hand within the framework of policy to produce up to the optimum size at economic cost.

4. The Board of Managing Directors, suggested elsewhere, should be, through its Chairman, directly responsible, to the Minister in the matter of broad questions of policy which are within the sphere of responsibility of the Government.

5. As the field of State activities expand, and a large number of national undertakings come into being it would be necessary to appoint more than one Minister to be in charge of the national undertakings which shall have to be grouped in due course according to broad classification of the commodities and products and other relevant considerations.

6. A decision should be taken early on the question of recruiting men experienced in business, commerce, industry and trade, for management of State Undertakings, and on the question of setting up of "The Indian Commercial and Industrial Service."

7. Young Officers recruited through Special Recruitment Boards, should be given full training both in the country and overseas. Government should also consider the possibility of recruiting people already trained or under such training abroad and, wherever necessary, see that their training is adapted to this purpose.

8. Urgent action is necessary for increasing the capacity for the manufacture of machines and spare parts in the country. There is need for the setting up of a Committee to survey the capacity of the country in this regard. The private sector should also be given encouragement for this purpose by the organisation of exhibitions of the machinery required, etc. Government should appoint a Committee, similar to the Railway Equipment Enquiry Committee, for this purpose.

9. Cost accounting should be introduced as a matter of course in these nationalised undertakings from the outset.

10. National undertakings should work on strict commercial principles, even in their transaction with Government Departments. There should be no delay in the despatch of material from the factories, or in the receipt of payment therefor, which should be strictly in cash.

11. A Section should be set up preferably in the Cabinet Secretariat which should scrutinise the Agreements with Foreign Firms and maintain up-to-date detailed information and comparative data on their working. Information should be pooled, indexed and carefully studied in all its aspects by the Section, which should be able to give expert advice to Ministries when called upon to do so, and all future agreements may be vetted by this Section. The principals which should govern such agreements should also be evolved in this Section.

12. Postings of Officers in the administrative and managerial side of the Undertakings should be done on a tenure basis for a period of four or five years, so that officers do not, by continuous stay in any one particular Undertaking become inefficient and lose initiative. Transfers should be made from one factory to another, so that the experience gained by Officers is available to other Industrial Undertakings. This policy should not normally affect the technical staff, including those employed on specialised work, who have been trained for a particular industry only.

Suitable training establishments should be set up in the various undertakings

for the training of new recruits. Training facilities should properly be advertised all over the country so that students from all parts of the country may avail themselves of it. Officers appointed to the higher grades should before appointment, be given a thorough training, if necessary, by sending them abroad so that when they are appointed, they are fully familiar with the various tasks they have to perform. Efforts should also be made to provide training facilities such as 'Learn As You Work' schemes to those who are already in employment in the factory.

13. As far as possible, amenities of the staff of the various State undertakings should be standardised. It should also be seen that certain minimum standards are observed in the provision of these amenities. Standards of residential accommodation, recreational, educational and medical facilities, should be laid down, and there should be a uniformity of policy in the lay-out of the towns and in their administration and in the matter of supply of water and electricity.

14. When two or more undertakings are adjacent to each other, the amenities provided to the staff of those undertakings should be common.

15. Each State undertaking should publish a detailed Annual Report giving a record of its activity during the past year, the progress made during the year under review, comparative statistics of previous years relating to expenditure, production etc., a balance sheet and profit and loss accounts, administrative changes and matters relating to the staff and their amenities, outstanding events and any other matters of importance that happened during the year and, finally, an indication of the work during the following year. The Report should also furnish such information as is usually provided in the form and contents of balance sheets and profit and loss accounts of Joint Stock Companies including a report on the State of affairs of the business etc. These reports should be presented to the Parliament every year, before the budget of the Ministry concerned is taken up for consideration.

16. Proper publicity is not being given at present to the activities of national undertakings. Attractive coloured pictures postcards and small folders depicting the activities of these undertakings should be printed and made available to the public. This may be done in consultation with the Publication Division of the Ministry of Information and Broadcasting. Stalls showing the products of the industries in the public sector and depicting their contribution to the economy of the country in general, should be opened in all the major exhibitions in the country.

Twenty-Second Report:

National Instruments Factory

1. The committee observe no reason why commercial accounts should not be maintained in the factory at least proforma, besides the accounts on cash basis as in the case of many other trading or manufacturing organisations within the steps should be immediately taken to draw up commercial accounts for the factory.

2. A satisfactory and modern procedure of standard costing etc. should be introduced and strict cost control and effective review should be undertaken in future. Govt. should not be satisfied with merely laying down a procedure for satisfactory Cost Accounting but should undertake an examination to see how far the actual manufacturing processes in the factory are conducive to efficient working and how far slack working due to inefficient procedure could be avoided. An examination on the lines of time and Motion study should be undertaken with the help of experts in the field, if necessary.

3. Government should consider the advisability of introducing a system of payment of wages according to out-turn in all manufacturing institutions of this kind. Such a system would act as an incentive to the workers to increase their out-put.

4. The Committee observes that the sale price of certain instruments manufactured in the factory are lower than their cost price. The Committee recommend that all such cases may be investigated

and steps taken to corelate the selling price to the cost price.

5. In regard to cases where frequent references have to be made to higher authorities even in small matters the Committee observe that in a manufacturing organisation it is always necessary that the authorities in local charge should have sufficient powers to carry on the day to day work so that production may not be hampered for want of sufficient authority. The Committee consider that there should be no further delay in removing the defect in the present procedure and would, therefore, recommend that the question of delegation of powers to Local Authorities should be examined in detail at a very early date. A reduction in the strength of the clerical staff should be possible after the powers of the local authorities are enhanced.

6. Non-officials of standing, such as Members of the Legislature and Parliament should be associated in the work of recruitment of staff which is at present made by a departmental selection Board consisting of officials. This would give a wider publicity to the selection and so bring in candidates from a wider field.

7. *The following measures are essential in regard to the Research and Development Department of the Factory*:—

(*i*) The Research Department should function not as a Service Department of the factory but as a separate unit.

(*ii*) The Department should undertake investigations not concerned merely with the production difficulties in the factory but also technical problems of fundamental nature. Besides this, investigations for the manufacture of new items in the country, for evaluating the cost of manufacture etc. should also be undertaken. The possibilities of utilisation of raw materials from indigenous sources in the manufacture of such instruments should also constitute one of the items of research.

(*iii*) For this purpose the factory should be provided with sufficient funds and all accommodation and equipment necessary therefor should be made available.

(*iv*) Where research is undertaken in this department, in regard to manufacturing problems of the factory, suitable charges therefore should be levied as a part of the cost of production of the factory.

(*v*) The Department should also serve the need of the private sectors, charging the cost of such work to the persons served.

8. Detailed proposals for organising production on a cottage and small scale units form of organisation, should be worked out and early steps taken to implement the same in various parts of the country. The Committee also desire that in drawing up schemes for deputing our staff for training in foreign countries in the problems of instruments manufactures, attention should also be paid to the organisation of cottage industries in foreign countries such as Japan, where such organisations exist.

9. The work of the various Government factories of this kind should be brought out in separate reports at the end of the year and full publicity given thereto. Steps should also be taken to bring the activities of such institutions to the notice of the public through articles written in journals and periodicals.

In this connection the Committee would recommend the opening of a show-room in one or two important cities to display the articles manufactured in the factory. The show-room may also be utilised to show the sceintific instruments that are at present being imported.

10. The Committee would suggest that the question of organisation of the factory be reviewed and the form of organisation brought into line with the accepted pattern for State undertakings namely, the Company form.

11. The Committee desire that action should be taken to finalise the work regarding drawing up standards of specifications, quality etc. of scientific instruments for use in the country.

Twenty-Seventh Report:

Hindustan Aircrafts and Hindustan Insecticides

1. The Committee do not see the need for an official between the Managing Director and the Heads of the various Departments and Sections. They consider that it should be possible for the Managing Director to take up almost all the duties of the general supervision from the General Superintendent by delegation of additional powers if necessary, to the Heads of the Departments or the Sections and Branches.

2. It should be possible for the Purchase Officer to take over charge of the Stores Section also, thus dispensing with the post of the Stores Officer. The major items of purchase should ordinarily be based on bulk contracts which would come up for renewal only at long intervals.

3. The Committee desire that the whole question including the number of technical staff in the various branches required for the working of the factory during the course of and after expansion of production capacity, should be carefully examined without delay by a Technical Committee consisting of Chemical Engineers, Cost Accountants and trained Administrators, who should examine also the staff requirements of other Chemical Industries under the Ministry of Production such as the D.D.T. Factory.

4. The Committee desire that every effort should be made to maintain a higher standard of research and to see that the results of the research are also of sufficient use to the factory in particular and to the manufacture and use of antibiotic in the country in general.

Apart from sampling and testing research of a developmental nature should also be undertaken.

5. The Committee recommend that on expiry of the present contract with the selling agents on the 31st March, 1956, opportunity should be given to other firms to compete for selling the Company's products so that the best terms may be available to the Government and country-wide sales could be effected.

The Committee desire that appointment of Selling Agents should be made by calling for open tenders. While selecting the Sales Agents, it should be ensured that every State is covered and so far as possible agencies are given only to those firms which have extensive sales organisations within the State.

Production of the factory is distributed through selling agents but whose retail selling prices are not subject to any agreement. In order to avoid any undue profit being made by the selling agents the Committee suggest that the terms of agreement with the agents should provide that no such cases of profiteering in the retail sales arise. This point may be borne in mind when inviting tenders for appointment of agents when the present contract expires every next year.

6. The constitution of a Committee consisting of non-officials to supervise the scheme of free distribution may be advisable.

7. In order to avoid incurring any loss, care should be taken to see that the selling price is as far as possible not below the cost of production and that at any rate it includes a certain amount of return on capital etc.

8. For increasing the out-turn both of the factory and the Bottling Plant, the Committee would recommend that a system of payment of wages to staff based on out-turn should be examined and introduced.

9. Non-Officials should also be associated in the Selection Committees for appointment of officials in the factory.

10. A representative of the State Government should also be associated with the Board of Directors, as this would enable close touch being maintained with the State Governments. The Committee also suggest that Members of the State Legislature and of Parliament may be associated with the Board of Directors so as to represent the non-official viewpoint.

11. They would suggest therefore that the Technical Committee which they have suggested in the case of the Hindustan

Antibiotics Ltd. consisting of Chemical Engineers, cost Accountants and trained Administrators should be asked to examine the number of staff in the various categories in this factory and also to see that the number of supervisory and clerical posts is not excessive.

12. As at present constituted, the Board of Directors of the D.D.T. Factory includes a member who is at the same time Director of the Managing Agents of D.C.M. Chemical Works Ltd., which supplies raw materials to the D.D.T. Factory, consumes the waste products and is an interested party in the matter of the dispute about the proprietorship of the land on which the D.D.T. Factory is situated. The Committee would observe that while they entirely agree with the need for appointment Directors with business experience etc., in this particular case, however, from a perusal of the minutes of the Board of Directors they are not satisfied with the arrangements, as very important matters connected with the suppply of raw materials of the factory and the disposal of the water products have come up frequently and have formed subjects of difference of opinion between the non-official Directors and the other Directors. The Committee would suggest that this matter should be reconsidered by the Ministry.

Thirty-Ninth Report:

Bharat Electronics

1. The Committee hope that the formation of a limited company to execute the project would give considerable scope for decentralisation of authority and for adoption of business-like methods with a view to expeditious conduct of work and production and that it would not merely become an adjunct or a subordinate organisation of the Ministry of Defence.

2. The Committee realise that negotiations with a foreign firm for the establishment of an industry of which neither the Government nor the country had any previous experience, would involve protracted discussions in the matter of settlement of production programme, terms for assistance and collaboration, etc. However, they consider that the 4½ year period which elapsed after the initiation of action for the establishment of the industry until the final signing of the Agreement and during which imports of electronics equipment continued to be made at the rate of Rs. 2 crores a year, was more than strictly justified. The Committee are of the opinion that in such matters more business-like methods should be adopted and no efforts should be spared to expedite the progress of the negotiations and discussions with the firm whose collaboration and assistance is to be obtained.

3. The Committee agree that there were special reasons on account of which the assistance of the French concern had to be obtained even in the preparations of plans and design of factory but they would recommend that, in future, in similar cases, Indians might be associated even from the start in the designing, etc., of the factory buildings so as to enable them to get the necessary experience which would undoubtedly prove valuable.

4. The Committee suggest that in future, officers of the C. S. F. visiting the B.E.L. to supervise the progress of the project may be invited to submit reports on the progress of the work for the information of the Government of India as also of the Board of Directors of the B.E.L.

5. They would, however, like to invite the attention of the Government to the recommendation contained in para 17 of the Estimates Committee's sixteenth report about the Organisation and Administration of Nationalised undertakings that Government undertakings should be dispersed throughout the country and that they should not be concentrated in any particular area or areas, particularly as there are a few at Bangalore four major industries of the Government of India, viz, the Hindustan Aircraft Ltd.,the Hindustan Industries and the B. E. L. besides those of the State Goverment.

6. The Committee would emphasize the necessity of bringing out the annual accounts more expeditiously and suggest that for this purpose the I.S.D. London be approached to ensure expeditious

rendering of bills etc. At the same time they suggest that the feasibility of closing the annual accounts without awaiting outstanding bills beyond a certain date, by showing them suitably in the Balance Sheet as is done in most commercial concerns should be examined.

7. The Committee consider it necessary that the B.E.L. along with similar other State Undertakings should implement the recommendations made in paragraph 3 of Estimates Committee's Sixteenth Report and publish an Annual Report showing all its activities, alongwith the annual accounts and Balance Sheet, for the information of the Parliament as well as of the general public and that a beginning in this respect should be made in 1957.

The Committee are of the view that Secretariat functions of laying down policies and the executive functions of implementing them should be clearly demarcated and that as far as possible Secretariat officials should not be associated with the actual execution of policies laid down by them so as to enable them to retain an objective outlook. They do not, therefore, consider the arrangement under which the Secretary to the Government of India is the Chairman of the Board of Directors of a company set up by the Government to carry out a project on business principles, to be very satisfactory.

8. The Committee would suggest that the composition of the Board of Directors should be rationalised and made broad-based at an early date.

9. The Committee suggest that a representative of the Radio Manufacturers in India may also be associated with the Board of Directors, if possible in view of the fact that the question of country's becoming self-sufficient in all respects in the equipment to be manufactured by the B.E.L. is interlinked with the growth and development of the radio industry in the country, particularly in the matter of manufacture of components.

10. The Committee would suggest the gradual replacement to the extent possible, of officials on the Board of Directors by non-officials such as industrialists, scientists, a Chartered Accountant, the Director of the Indian Institute of Science and/or of the Pilani Institute etc. so as to enable a fresh, business-like and scientific outlook to be brought to bear on the affairs of the B.E.L.

11. The Committee feel that even if the production in the B.E.L. were to be confined to the requirements of Government Departments only, the Board of Directors should not have an overwhelming majority of officials as the presence of a large number of officials invariably tends to bring to the organisation and its functioning, an official approach of a a type which is generally found in most Government Departments and to that extent defeats the very object of setting up a private limited company to work on business principals. They consider that even in the matter of safeguarding the special interests of the User Departments while formulating the production programme and of facilitating coordination between them and the B.E.L. in matters of common interest, the purpose now intended to be served by having their representatives on the Board of Directors can be achieved by laying specific duties and responsibilities on the Radio and Cable Board—a body composed of representatives of the various User Departments.

12. The Committee would like to reiterate the recommendation made by the Estimates Committee in paragraph six of their Sixteenth Report that at least 25% of the share capital of such State Undertakings should be available for subscription by the public as it would secure public interest and co-operation in the management of such concerns. They feel that this step would also incidentally help in finding suitable non-officials for the Board of Directors.

13. The Committee observe a tendency on the part of Government to select a few non-officials to function on the Boards of Directors of several nationalised and other industries in the public sector with the result that very often the non-officials concerned do not find sufficient time to attend to the affairs of all the concerns. The Committee do not consider this either fair to the non-officials concerned or

conducive to efficiency and would suggest that the appointment of the same non-officials on the Boards of Directors of a number of such concerns be avoided as far as possible.

14. The Committee feel that in the absence of a senior technical adviser on the spot to assist the Managing Director, the objectives aimed at are not likely to be achieved expeditiously, at the earliest opportunity a senior technical adviser should be appointed and also given a place on the Board of Directors.

15. Should this be the case, the Committee would recommend the formation of an Advisory Board consisting of technical experts, who might visit the B.E.L. once in six months or even a year and assess the working of and the progress made by the B.E.L. towards the achievement of the programme of production laid down and the ultimate goal of self-sufficiency. An Advisory Board of this type when appointed may be required to submit reports direct to the Government of India on the assessment made by them so as to enable the Government of India to obtain independent advice on the working of the B.E.L. from a body different from the Board of Directors.

16. The Committee observe that different limits in regard to the pay have been fixed by Government in the matter of obtaining the prior approval of the President while making appointments to certain posts in the various nationalised undertakings in the public sector. For instance, they find that in the Hindustan Aircraft Ltd., no such limit has been fixed, that in the I.A.C. and A.I.I. Corporation, a minimum salary limit of Rs. 1000/- has been fixed while in the B. E. L., the criterion is that Rs. 2000/- should be the maximum pay of the post. The Committee recommended that certain uniformity in this matter should be observed by the Government.

17. The Committee observe that at present different limits have been fixed in the various nationalised undertakings in the matter of obtaining prior approval of the Central Government for incurring capital expenditure. The Committee recommend that the monetary limit for incurring capital expenditure without reference to the Government of India should be fixed in all such public undertakings on some uniform principle or principles.

18. The Committee commend the principle of having a Board of Management, which, if worked in proper spirit, facilitates the discussion among the chief executive and his senior heads of departments, of problems administrative and technical, facing the management and also ensures collective responsibility. The Committee, however, find that in specific powers delegated to the Managing Director are to be exercised by him in consultation with the Board of Management. They do not consider this to be very satisfactory and recommend that the Board of Management should have intermediate powers between the Managing Director and the Board of Directors. The Committee would recommend the enlargement of the Board of Management of the B.E.L. by the addition of the Technical Director when appointed and until then by one or two of the senior foreign personnels working with the B.E.L. on the model of the composition of the Board of Management of the H.A.L.

19. The Committee suggest that foreign technicals may be brought keeping in view the long term plan and for predetermined periods to the minimum extent necessary so as to avoid, as far as possible, the grant of piece-meal extensions and also to facilitate their coming on more favourable terms to the country in view of the assurance of a longer stay with the B.E.L.

20. The Committee suggest that the necessity of posting a non-technical Army officer on London to maintain liaison with the D.G.I.S.D. in London and with the C.S.F. in the purchase of machinery abroad may be re-examined in the light of the future purchase programme and the feasibility of merging his functions with the I.S.D. London or the Military Adviser to the High Commissioner in U.K. also considered. The Committee deplore the necessity of having to post a liaison officer in New Delhi to chase

references made to the Ministries and User Departments and regard it as a sad reflection on the state of affairs in Government Departments. The Committee would, however, like to suggest that in case appointments of liaison officers in this manner by various nationalised undertakings are inevitable in the present circumstances, the feasibility of two or three or more nationalised undertakings, having joint liaison officers, not merely in New Delhi but in other places also, may be examined by them.

21. The Committee suggest that recruitment in the case of Class III posts may be made on a regional basis rather than on a local basis as at present and that for this purpose advertisements may be made in the entire Southern region, i.e. Andhra, Bombay and Kerala besides Madras and Mysore.

22. The Committee are glad to note that an independent Technical Officer is being associated in Selection Committees for recruitment of personnel. They consider, however, that besides an independent Technical Officer, the Selection Committees should also consist of a member of the U.P.S.C. or at least of the local State Public Service Commission, especially at the interview stage, so as to minimise to some extent the effect of the exclusion of posts in nationalised and other undertakings in the public sector from the purview of the U.P.S.C.

23. The Committee realise that it would not be desirable to over-burden the U.P.S.C. with the task of recruitment to posts in the undertakings in the public sector also and, therefore, recommend that a separate Public Service Commission should be set up for this purpose as early as possible. They further suggest that, if necessary, this Public Service Commission might have slightly different and more flexible rules and procedures to suit the peculiar circumstances and requirements of industrial undertakings in the public sector.

24. The Committee suggest that the question of the pay scales in the B.E.L. may be examined *denovo* by the Board of Directors of the B.E.L. as well as by the Defence Ministry in consultation with those concerned with the management of H.A.L., I.T.I. and H.M.T. and also, if necessary with the Mysore Government.

25. The Committee are surprised to learn that work-load and norms of work had not been prescribed for the various types of work both industrial and non-industrial. The Committee consider that it is important to fix, without any delay, the work-loads and norms of work in the B.E.L. on the basis of those fixed by the C.S.F. for their own labour and to spare no effort to improve the efficiency of labour, with reference to the norms so fixed.

26. The Committee consider that when new industries are being established, a start should be made with the modern practice of piece work and bonus system rather than carry on with an old fashioned system. They hope, therefore, that this system will be introduced at an early date.

27. The Committee regret to observe that the B.E.L. have not so far set up any Works Committees. They, therefore, recommend that such Committees should be set up immediately.

28. The Committee recommend the setting up of Joint Production Committees of management and workers for the purpose of facilitating discussions and consultations on all production matters between the two. They also recommend that the system of inviting suggestions freely from workers should be introduced and that deserving suggestions should be suitably rewarded.

29. To facilitate close co-ordination in research of this type, the B.E.L. should take concrete steps to encourage the conduct of research in various Institutes and Laboratories particularly in the matter of developing indigenous sources of raw materials required in the electronics industry, including those required in valves manufacture, while it could itself concentrate on the industrial aspect of research. The Committee suggest that for the purpose of facilitating research on selected lines, pilot plants be got

opened in the Electronics Institutes and Laboratories either directly by the B.E.L. or preferably through the agency of the Council of Scientific and Industrial Research.

30. They, therefore, suggest the appointment of a Committee of Experts to assess the demand of the country now and in the immediate future in respect of various types of electronic equipment so as to enable the B.E.L. to keep these items and targets of production in view in framing its plans for future expansion and at the same time to plan for the entire production during the currency of the agreement with the C.S.F. so as to ensure its maximum exploitation.

31. The Committee would suggest that, in addition to the existing audit arrangements, it would be desirable to have another centralised authority charged with the responsibility of laying down the system of costing for each industrial unit and of ensuring by periodical inspections that the system is being faithfully followed by each Unit and also that action is being taken to control costs etc. on the basis of the data brought out.

The Committee would also suggest that the Cost Accounts Branch of the Ministry of Finance be entrusted with the specific duties of laying down the system of costing to be followed in each undertaking in the public sector, of conducting systematic concurrent or periodic reviews in regard to the adequacy or otherwise of the cost accounts system and of submitting reports thereon, direct to the Finance Ministry as well as the administrative Ministry concerned of Government of India.

32. The Committee regret to observe that the prices charged by the B.E.L. should be so exhorbitant as compared to the prices of similar imported equipment in spite of the fact that the customs duty for wireless apparatus, components, etc. imported by the B.E.L. for the purpose of production is charged at a concessional rate of 2⅝% *ad valorem* on a certificate issued by the Ministry of Communications whereas the normal duty for these items is about 31½ per cent.

The Committee recommend that a careful scrutiny into the reasons for the disparity between the prices of equipment manufactured by the B.E.L. and that imported should be made by the administration, with the help, wherever necessary, of an experienced Chartered or Cost Accountant and a representative of the Comptroller & Auditor-General, with reference to each one of the contributory causes mentioned and that steps be initiated without any further delay to bring the costs down to a reasonable level.

33. The Committee feel that all these could be accomplished only by the appointment of a Committee of Experts of the B.E.L. and the representatives of the Development Wing of the Ministry of Heavy Industries who should undertake an immediate survey of the indigenous capacity for the manufacture of components, etc. and for drawing up a long-term plan allocating amongst various producers the responsibility for manufacturing specified items.

Sixty-Seventh Report :

Hindustan Aircraft

1. While the Committee agree that the I.A.F. as the principal user department should be represented on the Board of Directors, they do not consider it desirable that the Board should include many officers of the Secretariat.

2. The Committee feel that it would also be advisable to appoint persons with wide experience in aviation and/or steel, and/or aluminium industry to the Board of Directors. The present Board of Directors of the H.A.L. has only one such person as member. The Committee consider that the Board may be broad-based by the inclusion of more such persons. They feel that it should then also be possible to appoint one of them as Chairman of the Board.

The Committee welcome the large delegation of powers to the Board of Directors. They, however, feel that besides giving large powers to the Board,

it is also necessary to see that the climate for the full exercise of such powers is provided. The Committee also feel that while necessary safeguards might be provided by requiring, in matters which might concern I.A.F., approval of the Board of Directors of which the Chief of Air Staff is also a member, procedures which would lead to delays and remoteness of controls should be avoided.

3. Besides the functional heads, there are four posts of Deputy General Managers. As the functional heads are expected to advise the General Manager on all important questions, technical or otherwise, the Committee feel that the necessity of placing additional functionaries in the form of the Deputy General Managers require to be examined.

4. The Committee feel that it is a healthy feature to associate State Governments in Central enterprises specially in those constituted under the Companies Act. Such association would enable the State Government concerned to take a greater interest in the enterprises located within its territory.

5. The Committee consider that it is very necessary that the H.A.L. should obtain prompt payments from its customers. They, therefore, recommend that the H.A.L. in consultation with the I.A.F. and the Indian Airlines Corporation should draw up a procedure for obtaining quick payments for the work done.

6. The Committee observe that in addition to statutory audit by the company auditors and the Comptroller and Auditor-General any claims preferred by the H.A.L. against Defence Services and the Railways are also scrutinised by their respective Accounts Departments. The H.A.L. may, therefore be said to have four different audits, or checks of accounts imposed on them, two statutory and two non-statutory.

7. The H.A.L. being partically a monopolistic concern especially in the aircraft division, advantages of comparison of costs with other concerns are not available. The Committee, therefore, consider it all the more necessary that the costs should be carefully analysed and kept under check so that maximum efficiency could be attained.

8. The Committee suggest that active steps should be taken to induce the Civil Aviation authorities as well as the flying clubs to go in for H.T.2 trainers, designed and made entirely in India.

9. The Committee suggest that there should be full coordination between the H.A.L. and the I.A.F. in deciding the future policies of training in flying.

10. The Committee recommend that an early decision should be reached about the manufacture of a medium-sized transport aircraft which would be useful for both Civil Aviation and the Air Force. They feel that in such a matter it might be preferable to start manufacture under licence.

11. It should be the aim of the H.A.L. to ensure that every part, instrument and accessary required in its manufacturing programme is manufactured in this country. The Committee, therefore, recommend that capacity should be expeditiously developed for the indigenous manufacture of such items by having a number of sub-contractors or sub-manufacturers aiding the H.A.L. For this purpose, they suggest that the H. A. L. should keep in touch with the Development Wing of the Ministry of Heavy Industries and should also be assisted by a Committee consisting of representatives of industries and production units, both in the public and private sectors, which are likely to assist in this matter. The Committee further recommend that the question of stockpiling should also be examined expeditiously with particular reference to the recommendation made by the Rolls Royce engineers.

12. They would, however, suggest that the H.A.L. should give an indication of their requirements of aeronautical engineers over a period of say five years, to the Ministry of Education so that the latter may see at the time of screening applications from intending candidates for study overseas that an appropriate number took up the subjects of aeronautical engineering in important institutions

so as to provide a source from where H.A.L. can recruit their future aeronautical engineers.

13. The Committee find that over 70% of the total employees are governed by a daily-rated pay system. While the Committee do not desire to make any comment on this system beyond what they have already recommended in para 84 of their Thirty-ninth Report, they feel that a rationalisation of the pay structure, so as to remove all anomalies is necessary.

The Committee are glad to learn that the introduction of the attendance bonus scheme has resulted in improvement in attendance and reduction in absenteeism. They recommend that the feasibility of the introduction of similar schemes may be examined by other State industrial undertakings also.

15. The Committee consider this very unfortunate, especially in the context of modern ideas of labour participation in management. They suggest that in spite of the initial failures, concerted action is necessary on the part of labour, with thecooperation of the management to make such schemes an unqualified success.

CORPORATIONS

Eighth Report :

D. V. C.

1. The Corporation should be asked to plan their requrements of stores and supplies in advance to determine which of them should be purchased through the Director-General, Supplies and Disposals.

The Committee reaffirm their earlier decision made in para. 59 of the Fifth Report that the agency of the D.G., S. & D., should be used for making all purchases, except in the case of proved urgency and normal delegation of powers in this respect.

2. The Committee feel that there should be no departure from the wholesome practice suggested by them in para. 61 of their Fifth Report that Consultants should not be appointed as Contractors. or as Inspectors of stores. If any decision contrary to the recommendation has been taken by Government, that should be revised.

3. A competent under-study to a foreign expert should always be appointed.

4. Key appointments to specified posts should be made after the approval of the Central Government.

5. Complete information in regard to the working of the D.V.C. should be given to Parliament and its Committees.

Forty-First Report :

Air Corporations. General and A.I.I.

1. The authorities in charge of the Air Corporations should, at their level, proceed entirely on business and commercial principles, while the authority of the Government should prevail only where overriding considerations of national policy over commercial principles arise. Within those limits, the Corporation should not only retain its autonomy technically but should also be so constituted as to possess the business.

The Committee feel that the presence of the Secretary, Communications Ministry on the Boards of I.A.C. and the A.I.I. could only tend to a blurring of his responsibilities, which should be avoided. The presence of the Secretary to Government on the Board of a Corporation or a public utility undertaking, particularly one which runs at a loss, would result in his becoming a party to its state of affairs and management and consequently he will find it difficult to retain an objective outlook on major issues, such as the regulation and management of economic policies which a Secretary to the Government should possess.

3. The Committee have noticed an increasing tendency on the part of Government to appoint Secretariat officials as members of Corporation or of Boards of Directors and to expect them to perform such functions concurrently with their Secretariat duties. In their Sixteenth Report, the Committee have referred to the very limited usefulness of such bodies. They have further emphasised in their Report on the B. E. L. the necessity of demarcating clearly the Secretariat functions of laying down policies

and the executive functions of implementing them and also the necessity to avoid associating secretariat officials with the actual execution of policies laid down by them, so as to enable them to retain the necessary objective outlook. They reiterate here the recommendations made by them in these reports.

4. There is a tendency on the part of the Corporations, especially the I.A.C. as at present constituted to rely upon the D.G.C.A. to an extent more than is necessary. As the guardian of the law of the Civil Aviation which he has to enforce on the Corporation, the D.G.C.A. should not share the responsibility for the conduct of affairs of the Corporation. Steps should therefore be taken to rectify immediately the anomalies and inconsistencies which have resulted from the concentration of all responsibilities in one officer.

5. The Committee cannot over-emphasize the necessity of close cooperation between civil and military aviation whether in the matter of training workshop facilities or of research.

6. The Committee recommend that civil aviation and Air Corporations should be a responsibility of the Transport Ministry as in U.K. and not of Communications Ministry and that this change be given effect to at an early date.

7. The Committee consider that non-official representation on Air Transport Council is inadequate. They recommend that as a rule such advisory councils should have a substantial non-official element in them.

8. The question of rates for the carriage of mails payable to the Corporation by the Posts and Telegraphs Department may also be referred to the Council even at this stage since mails form an important source of revenue to the Corporation.

9. As the integration of domestic services has been completed, it should be possible for Government to review the question of a common Corporation for both the I.A.C. and the A.I.I.

10. There should be a Council for air research to direct research and ensure coordination with a view to making the most effective use of the available technical talent.

11. Government should make suitable regulations to prohibit persons who have retired or have resigned form Government service, especially those who are in possession of valuable information, from accepting service under foreign Governments or nationalised undertakings in foreign countries without the prior approval of the Government.

12. A Board of Management consisting of the Chief Executive and his principal heads of departments should be appointed for the efficient conduct of the day to day business of the Corporation and suitable internal rules of procedure should be framed for the purpose.

13. There should be continuous review of the methods of cost accounting and the results. International air transport is a highly competitive industry, demanding advance planning and detailed check on results for successful management. The Corporation should, therefore, keep in the touch with the system of cost control exercised by the modern operators and keep its own system sufficiently modern.

14. The Committee fail to see the need for the additional audit of the accounts by a firm of Chartered Accountants which has been voluntarily arranged by the Corporation when there is a full-flegged internal audit department and the external audit conducted by the Comptroller and Auditor General is much wider in its scope than that done by commercial auditors.

15. The policy regarding insurance of properties belonging to State-controlled industries, stated to be under consideration by the Ministry of Production should be made applicable uniformly for all State controlled industries under all the Ministries of the Government.

16. In all nationalised undertakings, there should be a liberal policy for providing opportunities for training to certain number of persons even though they may not be strictly and directly required for the undertaking.

17. The Committee recommend that the Corporation should consider setting up of Works Committee in A.I.I. at least in the Workshops.

Forty-Third Report:

Indian Airlines Corporation

1. It would be advantageous if a non-official with experience in administration as well as in the air transport business could be made the Chairman of the Corporation, as in the Air India International Corporation.

2. It should be the endeavour of the Government to find for the Boards of the Corporations persons with special knowledge of Air Transport Industry and with business acumen.

3. Suitable internal rules of procedure should be framed for the purpose of having a Board of Management consisting of the Chief Executive and his Heads of Departments to facilitate discussion of all important questions concerning the Corporation. Minutes should be recorded of the meeetings of the Board of Management.

4. The Committee consider that the question whether the Headquarters of the Indian Airlines Corporation should remain at Delhi should be examined afresh by the Gvernment and the management of Indian Airlines Corporation.

5. The Committee recommend that the speed, initiative and the efficiency of administration, at various levels should be kept continuously under review.

6. The Committee would also suggest that the power enjoyed by the officers of the Corporation at various levels should be compared with those that were enjoyed by the well run private air transport companies, immediately before nationalisation.

7. The Committee recommend that the Corporation should study the reports of various modern airlines and improve both the extent of information furnished in their reports as also the standards of reporting. The Committee feel that the attention even to small matters as the get-up of the annual reports will be taken to some extent by the general public as representing the extent of attention the Corporation devotes to all its affairs. They would, therefore, recommend that sufficient attention should be paid to such matters.

8. The Committee consider that there is no justification for delaying any further, a critical analysis and assessment of the existing route pattern of the Indian Airlines Corporation with a view to its rationalisation.

9. The Committee understand that the Hindustan Aircraft Ltd., has a scheme to start a line of production of medium-sized aircraft. The Committee would therefore, recommend that there should be utmost coordination in this matter among the Corporation, Indian Air Force and the Hindustan Aircraft Ltd.

10. The I.A.C. should follow the example of the A.I.I. as far as the standard of publicity and propaganda are concerned. For this purpose the Corporation would do well to utilize the machinery available with the A.I.I. for designing and organising publicity.

11. The Committee would recommend the appointment of Regional Councils to which representatives of local trades and prominent citizens of the locality should be appointed. The authorities should discuss with the Council, the ways of increasing the traffic from the area. Such Advisory Councils should also discuss methods by which the Corporation's services could serve the regions better.

12. The Committee suggest that the problems of freight traffic over areas where bottlenecks occur in Railway Transport as for instance at transhipment points may be studied with a view to find out, if certain types of cargo could be conveniently and economically transported by air over such areas. For this purpose the Chambers of Commerce representing the trades affected by the bottlenecks at the transhipment points may be contacted to explore the possiblities of introducing freighter services over such areas.

13. The Committee would suggest that the Corporation may obtain the services of an experienced officer of the railways to conduct their traffic surveys until some of their own officers are trained to do the work competently. The results of such surveys would facilitate a reorganisation of the route pattern.

14. The Committee consider that efforts to improve the standards of courtesy and helpfulness on the part of the staff of the Corporation towards their clients, the standards of cleanliness and upkeep in the aircraft as well as in the station, the quality of food served in the planes as well as in the canteens should not be slackened.

15. The Committee recommend that a comprehensive review of flight timings of all the services should be undertaken to minimise inconvenience to passengers.

16. The Corporation may also consider the sale of air travel in mileage blocks to business organisations. The Corporation may also consider the question of allowing reasonable discounts on the purchase of bulk air travel. At the same time precautions should be taken to prevent misuse of any such special privilege.

17. The Committee feel that it would be advantageous if there was a system by which on payment of a certain sum to the Corporation the passenger would be deemed to be covered by an insurance. The Committee recommend that this question be considered in consultation with the Life Insurance Corporation and a suitable system evolved in consultation with the insureres to provide for a certain cover for every passenger.

18. The Committee would suggest, that the Corporation should consider the question of using, as far as possible, the services of the Indian Stores Department in London and Washington for purchasing of stores. While articles of proprietary nature and critical requirements could be obtained directly, it should be possible for the Corporation to obtain its periodical replenishment through the Stores Department.

19. The Committee would also recommend that the question of introducing piece work system of wages with bonus should be considered in order to ensure reasonable output and to encourage workers who show increased output.

IRRIGATION PROJECTS

Fifth Report :

Damodar Valley Project

A Committee should be appointed to investigate the work done by the Rehabilitation and Development Department and whether the work done is commensurate with the money spent and whether this work should more properly be entrusted to the State Governments. The findings of the proposed Committee should be placed before the Estimates Committee.

The Damodar Valley Corporation should be reconstituted on the pattern of semi-autonomous bodies recommended by the Committee vide Serial No. 36 under "General" so as to include a qualified engineer and a financial expert besides an administrator for the efficient conduct of activities of the Corporation.

The methods for tapping available technical manpower in India should be improved and clearly laid down.

The Corporation should have given higher priority to flood control and irrigation instead of the contruction of a Thermal station, as the scheme was originally conceived as a flood control measure. The work of flood control and irrigation could have been completed at a far less cost than that incurred on the thermal station and the results would have been more useful for the country's benefit.

Hirakud Dam Project

The administrative set-up of this project should be remodelled.

An officer of sufficient seniority and with sufficient authority should be appointed as Financial Adviser so that he may be able to take independent decisions on the spot. The position of the Financial Adviser should be defined

in the manner recommended by the Committee.

There should be a proper system for the preparation and submission to the Controlling authority of monthly progress reports on the projects. The controlling authority should ensure that the progress shown in these reports is keeping in line with the plans, the schedule of dates and estimates of costs.

The revised estimates in respect of the project should be prepared in detail in the light of the current information and the programme of expenditure to be incurred each year should be recast so that there is even flow of funds and both the Central and the Orissa Governments are in the know of the current position.

The Chief Engineer should not give all the contracts himself as at present. The Superintending Engineer should sanction contracts up to Rs. 50,000 and the Chief Engineer between Rs. 50,000 and Rs. 2,00,000. All works costing more than Rs. 2 lakhs should be given out on contract after approval by the Contract Board consisting of the Chief Engineer of Orissa, Chairman of the Central Water and Power Commission, the Chief Engineer and Financial Adviser of the Hirakud Project.

All posts should be created with the approval of an appointment Board consisting of the Chief Minister of Orissa Government, Financial Adviser, the Chief Engineer, Hirakud and the Chairman of the Central Water and Power Commission. Before sanctioning a post the Board should call for complete data and examine the volume of work involved therein carefully. The reasons for the creation of each post should be recorded in writing and the financial effects worked out in advance.

Bhakra-Nangal Project

Government should seriously consider the question of having a permanent and effective body to coordinate the interests of the three participating States and the Centre. The appointment of an *ad hoc* Contral Board with the Governor of Punjab as the Chairman in his personal capacity does not appear to be satisfactory. Government should consider the feasibility of having a semi-autonomous Board for such State enterprises with a qualified engineer and a financial expert as members. Government should consider the above questions and make necessary funds available so that the non-provision of funds in time may not impair the speedy execution of the project and render it uneconomic.

Government should consider in consultation with the State Governments concerned the desirability of exploring other sources of income in the form of levy of agricultural income tax in order to increase the revenues for financing the scheme.

General

Whenever a scheme is formulated, it is essential that the detailed aspects pertaining to finance, technical side of the scheme, acquisition of land, training of manpower, procurement of stores, plants and machinery, prospects of development of industry, utilisation of water and power are properly conceived, and dovetailed and provided for proper stages and in an integrated manner. There should be total planning in advance including the question of utilisation of benefits accruing from a completed scheme, so that everything proceeds on a planned and ordered basis and each one in the chain knows precisely what he has to do and wherein he comes into the picture. An integrated scheme will also enable the top authority to watch the progress in all directions.

There should be a three-tier organisation for the planning, execution and completion of various multi-purpose river valley schemes with clearly defined functions for each. The first tier should consist of the Cabinet, which on the advice of Ministry of Natural Resources and Scientific Research, the Planning Commission and the Central Water and Power Commission will give policy decisions. The functions of initiating and making plans should vest in the Central Water and Power Commission which would act as the fact-finding and initiating agency. They

would collect data, make plans and frame estimates. It should be the responsibility of the Ministry of Natural Resources and Scientific Research and the Planning Commission, in consultation with Central Water and Power Commission, and the Ministry of Finance to give these plans and estimates the final shape. The third tier is the creation of semi-autonomous organizations (by Statute of Parliament) with well defined functions and powers, which would be charged with the responsibility of constructing the project on the lines of approved plans and within the estimates framed therefor.

The Board should have complete powers to work within the frame-work of the approved plans and estimates of costs and should strictly adhere to the priority indicated in the blue print of the scheme. If any modifications of the original plans and estimates are considered necessary, they should be decided at a joint meeting of the Central Water and Power Commission and the Board and their decisions submitted to Government for approval.

The Board should submit to Government complete quarterly progress reports and statements of expenditure against sanctioned allotments together with full explanation for variations, if any, which should be laid before Parliament.

The practice of appointing too many Consultants and Advisers to the Board should be avoided.

The headquarters office of the project organization should be located nearabout the site to enable the Board to watch the progress of work.

All contracts for work over and above Rs. 2 lakhs should be sanctioned by the Board. Contracts between Rs. 50,000 and Rs. 2 lakhs should be given with the approval of the Chief Engineer and below Rs. 50,000 by other Engineers specified for the purpose by the Board. Lists of approved contractors and a schedule of rates should be maintained for consultation.

Purchases of stores, plants, equipment and machinery should, as far as possible be done through the D.G. Supplies and by the two Purchase Missions in London and Washington. Direct purchases made by the Board up to certain authorised monetary limits should be checked by audit to see whether they were made at reasonable rates and under favourable conditions and also whether it would have been advantageous if the purchases had been made through the Central Government.

A Cost Accounting Organization for each project should be set up as soon as the scheme is sanctioned, and should act as a search-light, point out the bacilli of waste and the directions in which improvement is needed.

Government should give careful consideration to the institution of a central fund called "The River Valley Development Schemes Fund" for financing the River Valley Schemes and bring necessary legislation before Parliament for its approval. There should also be uniformity in the betterment levy in respect of the various River Valley Schemes.

There should be a provision in the statute itself for the audit of expenditure of the project.

Audit should be conducted by a representative of the Comptroller and Auditor-General or a Commercial Auditor appointed by him.

Audit staff should be located at the headquarters of the organization to conduct concurrent audit.

The report of the auditors should be made to the Comptroller and Auditor-General who will cause it to be aid before Parliament.

The Comptroller and Auditor-General should arrange to submit to Parliament a report on any serious cases of irregularities, fraud, bad management, etc., which may come to his notice.

There should be specific machinery for ensuring full control of Parliament over the various schemes. All plans, estimates etc., relating to a scheme should

be laid before Parliament, with a positive motion seeking its approval thereto. Similarly whenever any changes in the plans or estimates are required to be made, specific approval of Parliament should be obtained.

The Board of Control should be a homogenous one and there must be a single appointing authority for making key appointments to the Board. When a project is undertaken in conjunction with one or more State Governments the Central Government should have the final power of constituting the Board in consultation with the State Governments concerned, if necessary.

There should be in the Ministry of Finance a Planning Section to review all development plans relating to the River Valley Schemes from the administrative, technical and financial points of view. All such reviews should be placed before Parliament and the Estimates Committee.

A Central Engineering Service consisting of Irrigation Engineers should be started from which trained engineers could be drawn for work on various schemes.

The Central Government should in consultation with the State Governments, consider the question of starting ar Engineering and Technical Institute for the training of promising young men in order to meet the paucity of qualified technicians to handle the construction of dams and barrages. This Institute may also impart training on designs on the lines of Designs Organisation existing in the U.S.A.

The construction of large scale thermal stations should not be undertaken under a River Valley Scheme unless the installation of hydro-electric power stations forms a necessary part of the project.

APPENDIX II

Summary of Recommendations of the Public Accounts Committee: Companies

Third Report:

General

1. The Comptroller and Auditor-General should have the right to audit the expenditure of the State sponsored concerns by whatever name they may be called, because they are financed from the Consolidated Fund.

2. Corporations for the management of Government industrial undertakings should be set up under the authority of Acts passed by Parliament.

3. Urgent steps should be taken by the Government concerned to relieve the Audit Department of pre-audit and payment work.

Tenth Report:

Indian Telephone Industries (Private) Ltd.

1. An examination should be undertaken by the P. & T. Deptt. to see whether the supplies received by the Calcutta Automatisation Project from the A.T.E. and I.T.I. under the terms of the contract were at fair and reasonable prices not more unfavourable than from other parties.

2. The hold of stores worth about Rs. 95 lakhs by the I. T. I. shows a lack of proper planning and foresight on the part of the previous management in investing lakhs of public money in indiscriminate purchases. The Committee should like to know the disciplinary action taken against the officials at fault.

3. Specific provision regarding inspection of goods supplied by the A.T.E. in the U.K. by our own agency before shipment should have been made in the agreement. The expediency of an independent inspection being carried out by the Indian Stores Department London may be considered by the Ministry.

4. The Comptroller and Auditor-General of India should have been consulted before entering into a commitment for relying upon the certificate furnished by the firm's (A.T.E.'s) Auditors in the manner of verification of the reasonableness of the prices charged by them.

5. Government should explore the export markets for the products of I. T. I. in order to utilise fully the capacity of the factory and, if necessary, take up the question of the revision of the contract in this behalf.

6. A clause providing for revision in the agreement whenever considered necessary according to circumstances by the contracting parties should invariably be made in all such agreements entered into by Government in future.

7. The maximum output should be obtained from the use of all the machines lying unused in the I.T.I. and a balance stock of components for the different projects should be maintained.

8. The Committee stress the desirability of making the fullest use of the machinery in the interest of the country's industrial development.

Fifteenth Report :

Sindri Fertilisers & Chemicals Ltd.

The Committee do not agree with Government's view that the transfer of Government assets to the Sindri Fertilisers and Chemicals Ltd., in return for shares and debentures scrips of the Company was in the nature of disposal of Government properties for which the Executive had the necessary powers and did not require further authority of Parliament. The Committee consider that this transaction amounted virtually to a sale of Government assets to the private Company and simultaneous investment of the sale proceeds in the shares and debentures of the Company, to cover which a specific vote of Parliament was necessary.

Sixteenth Report:

Government Housing Factory

1. The Committee consider it unfortunate that sufficiently searching technical investigations had not been conducted to afford a reasonable assurance that the expenditure on the construction of the pre-fabricated Housing Factory would prove remunerative, before entering into this contract. With its past history so disappointing, the Committee are pained to learn that the present progress of the project is also not encouraging.

2. The Committee would like to defer further consideration of this case till the Expert Committee had submitted its report and the final settlement with the firm had been reported on by the C. & A. G.

Nahan Foundry

1. The Committee suggest that the Ministry of Railways and other Government Departments should be approached for manufacture orders which the Nahan Foundry could execute. With the prospect of cheap power becoming available in the near future from Bhakra Nangal Government may take up the question of diversification of its production. For this purpose, the Committee would suggest that Government should before long appoint a small Committee of experts to survey its manufacturing capacity as well as the possibility of modernising it.

2. The Committee see no strong justification for the retention of such a large complement of office staff in any circumstances and especially so when the foundry was running at a continued loss and there was not much work to keep it fully occupied.

3. The Committee desire that immediate action should be taken to institute an enquiry into large amounts spent on the development of new manufactures viz., Sarovar pumps, bullock-driven centrifugal pumps etc. which proved quite unsuccessful and action taken against the persons concerned who were responsible for launching upon this experiment.

National Instruments Factory

1. The Committee are anxious that the activities of the National Instruments Factory should be switched over from repair and maintenance to that of a manufacturing unit. Proper cost accounting technique should be introduced and balance sheet and profit and loss accounts prepared just as is being done in the case of other Government Commercial undertakings. The Committee hope that it should be possible to fix a limit for acquiring stocks over and above those immediately required to meet the demands of the National Instruments Factory in hand as soon as the first phase of the reorganisation scheme has been completed. Further, they also desire that due proportion between the slow moving and non-slow moving stores held by the factory should also be maintained and all possible care and prudence exercised to ensure that the items of non-moving and slow moving stores were indented not in excess of requirements which result not only in the locking up of public money but also possible deterioration owing to the efflux of time.

2. The Committee suggest that Government might explore the possibility of setting up an optical glass factory either as an adjunct to this Factory or as an independent undertaking.

Machine Tools

The Committee hope that with the statisical data in their possession, the Government will be in a position to formulate a coordinated programme for the production by the private and public sectors of the various types of machine tools etc.

Hindustan Antibiotics

The Committee would suggest that a proper cost-accounting system should be introduced quickly to enable Government to assess the economies of the Penicillin Factory, Pimpri. They trust that while calculating the overall cost per unit of penicillin produced at the Factory, the capital cost of the factory including the expenditure incurred on the construction of the housing colony, research work etc. would be taken into account.

Ninteenth Report :

Hindustan Aircraft

It is needless to emphasise the importance of inspection of stores especially intended for manufacturing of aero-engines and the like where a degree of precision is essential. The Committee had occasion to comment in the past on such lapses in proper inspection and consequential loss to Government. The Committee trust that there are competent staff in the inspection wing of the India Store Department, London and India Supply Mission, Washington for this purpose.

CONTROL BOARDS

Sixth Report :

Hirakud Project

1. The rules regarding the accounting of stores as laid down in the Central Public Works Accounts Code and as supplemented by the Hirakud Dam Project Accounting Rules should be rigidly enforced and no deviation from the prescribed procedure permitted.

2. Stock-verification of stores which are not likely to be required on the Project in the next few years should be taken up immediately and statement showing the price thereof prepared and verified by the Financial Adviser and Chief Accounts Officer.

3. Stock-taking of all stores rendered surplus should be taken and their values assessed periodically. In case, the stores are not likely to be utilized in the near future, action to dispose them of according to rules may be taken in order to avoid further losses on account of wear and tear.

4. In order to prevent the expenditure on the Project being inflated, the reserve limit for stocking various categories of stores should be fixed in consultation with the Accounts authorities. The whole system of purchasing and stocking stores should be rationalised so as to eliminate unproductive expenditure and loss.

5. In order that the Orissa Government may be in a position to assume responsibility for the running of the Project as soon as it is completed, preference should be given to the local people for employment in all categories of staff, as far as possible.

6. The recommendation made at the various Departmental Conferences and as retiterated at a high-level conference held on the 7th September, 1948 at which the Auditor General and the representatives of all the Ministries concerned where present that it is necessary to appoint a 'high level' Financial Adviser at the Centre for all multi-purpose River Valley Projects and that there should be at the site of each Project a Joint Financial Adviser with a Chief Accounts Officer functioning under him should be fully implemented.

7. Serious attention should be paid to the necessity and importance of planning the financial, accounting and audit organisation for each new Project involving considerable expenditure and such arrangements should be regarded as an integral part of the planing of the execution of a project as a whole.

8. In view of the fact that the success of the Five Year Plan will depend upon the capacity of the Government and their high authorities to inspire the highest qualities in the persons engaged in the active fulfilment of the Plan, the Officers must be carefully selected for their technical capacity and for their ability to work as a team, with enthusiasm and missionary zeal for the progress of the country.

9. The Central Water and Power Commission should be an advisory and consultative body with authority to undertake investigation of water and power resources of India, research, etc., and should not be permitted to undertake the actual execution of Projects.

10. The Chairman and Members of the C.W. and P.C. should confine themselves singlemindedly to the job of consulting Engineers and Advisers and no administrative Secretariat posts should be foisted on them.

11. The C.W. and P.C. should frame a set of Rules for regulating their

business and a record should be kept of all important decisions arrived at the meetings which should be held periodically for reviewing *inter alia* the progress of the execution of the various projects entrusted to the Commission and other cognate matters, viz., administrative, technical and financial.

Eleventh Report

Irrigation and Power

All other Ministries concerned.

1. A Chief Technical Examiner should be appointed by all such Ministries which incur large amount of expenditure on major works and big projects. The Chief Technical Examiner should be directly responsible to the Ministry and he should go round and inspect the works on its behalf.

In the case of the Ministry of Irrigation and Power, the Chief Technical Examiner should be independent of the C. W. & P. C. as well as the Chief Engineer of the Project concerned and should in no way be responsible for the execution of the work himself.

CORPORATIONS

Fifteenth Report :

R.F.A. and the I.F.C.

The delay in the disposal of loan applications in the R. F. A. can be eliminated and much infructuous expenditure involved in the processing of applications also saved, if the applications are examined carefully in the Administrator's Office immediately on their receipt to see whether they fulfil the prescribed conditions for the grant of loan, especially conditions as to the production of acceptable guarantor by the applicants. All conditions need not be entertained. As a rule, no loan should be sanctioned unless an applicant has produced an acceptable guarantor nor should time be wasted in processing an application further.

1. Industrial Finance Corporation

The Corporation should devise a formula in consultation with the Ministry of Finance and the Comptroller and Auditor General for determining the quantum of 'bad and doubtful debt', and make a provision in respect of the same in the Annual Balance Sheet of the Corporation.

2. Specific provision should be made in the Rules of the Corporation that the Directors of the the Corporation should disclose their interest in the affairs of any Company applying for loan before the loan application is considered by the Board.

3. The Committee trust that the separation of Accounts from Audit will not only increase administrative competence and responsibility but also enable the spending Departments to keep in intimate touch with the progress of expenditure and to exercise a closer and concurrent watch over the utilization of their budgetary grants and the progress of their programmes.

Eighteenth Report:

D. V. C.

1. Since under the provisions of the D.V.C. Act, 1948, the profits and losses are to be determined object-wise viz., flood control, irrigation and power, and except for flood control, are to be distributed between the three participating Governments in proportion to their respective shares in the total capital cost attributable to each object, the Committee desire that this question should be decided without any further delay so that a correct and realistic picture of the individual objectives of the Corporation might emerge.

2. The Committee would like to stress the need for an adequate standard of stores accounting on the various projects in the interests of both economic administration and avoidance of pilferage and loss of stores by fraudulence.

3. The Committee would reaffirm the view expressed by an earlier committee that save in the most exceptional circumstances, no work of any kind should be commenced without the prior

execution of contract documents, such a course makes the liability of the Government wholly indeterminable and places them entirely at the mercy of the contractors.

4. It is not proper or advisable to leave to the indenting officers to specify the makes of equipment; there should be co-ordination in the matter of purchase of the make, types and sizes of the plant best suited for various types of work and also combination and matching of plant where more than one unit of plant are involved. The decision to go in for the best type of equipment should be taken at a high technical level. The dangers in individual indenting officers purchasing a certain type of equipment according to their preferences are obvious. The Committee would like to commend the observations made in para 208 of the Report of the Construction Plant and Machinery Committee in this behalf.

APPENDIX III

Analysis of the questions asked in Lok Sabha about Government enterprises during 1953-56

1953

1.	**N. E. P. A. Paper Mills** (setting up)	13th February
2.	**Heavy Electrical Plants** (setting up)	,,
3.	**H. A. L.** (aircraft design)	16th February
4.	**Sindri** (stock)	17th February
5.	**Iron & Steel Plant** (setting up)	,,
6.	**Hindustan Housing Factory**	,,
7.	**Sindri** (Coke oven plant)	,,
8.	**Sindri** (production)	,,
9.	**Hindustan Shipyard**	,,
10.	**Sindri** (cost of production)	,,
11.	**Audit of expenditure of State sponsored concerns**	19th February
12.	**Bharat Electronics** (agreement entered into with French firm on 11th Dec. '52.)	19th February
13.	**Hindustan Cables** (set-up)	20th February
14.	**Hindustan Antibiotics** (Penicillin production)	20th February
15.	**Sindri** (production)	,,
16.	**Indian Telephone Industries.** (manufacturing programme)	23rd February
17.	**Hindustan Shipyard.** (cost of construction)	25th February
18.	**Sindri** (accumulation of stock)	,,
19.	**D.D.T. Factory, Delhi** (setting up)	3rd March
20.	**Hindustan Housing Factory.**	,,
21.	**Machine Tools.** (agreement with Oerlikons)	,,
22.	**Govt. Housing Factory** (reconstitution)	9th March
23.	**Hindustan Antibiotics.** (Penicillin production)	,,
24.	**Hindustan Shipyard** (improvement affected, No. of ships built etc).	11th March
25.	**Indian Mining & Construction Co.** (Govt. of India acquired all shares of the Co. from Lindsay Parkisnon & Co. Operations were carried on for 3 months & finally closed down on 15.7.52)	11th March

26.	**Industrial Enterprises in Public Sector** (personnel for management)	11th March
27.	**Singareni Collieries** (working)	,, ,,
28.	**D. D. T. Factory.** (setting up)	16th ,,
29.	**Hindustan Shipyard** (No. of ships, cost, agreement with French firm)	,, ,,
30.	**Machine Tool Factory** (agreement with firm, expenses etc.)	19th ,,
31.	**Fertiliser Production in Sindri**	25th ,,
32.	**D. D. T. Factory** (setting up)	,, ,,
33.	**Hindustan Shipyard** (labour trouble)	6th April
34.	**Hindustan Shipyard Limited** (labour trouble) (short notice question)	7th ,,
35.	**Eastern Shipping Corporation** (Projects—plan for development)	10th ,,
36.	**D. D. T. Factory For Delhi**	5th May
37.	**Sindri** (ammonium sulphate stocks)	4th August
38.	**Sindri** (selection of officers procedure)	6th ,,
39.	**Penicillin Factory** (supply of electricity)	,, ,,
40.	**Steel Plants** (setting up)	11th ,,
41.	**Hindustan Shipyard** (Manufacture of engines and boilers)	,, ,,
42.	**D. D. T. Plant** (setting up)	,, ,,
43.	**Penicillin Factory** (progress made in the establishment of Penicillin Factory)	14th ,,
44.	**Sindri** (Progress in future expansion in production of fertilizers)	,, ,,
45.	**Sindri** (training of Indian Engineers for replacement)	,, ,,
46.	**Machine Tool Factory** (No. of foreign technical experts, etc.)	,, ,,
47.	**Sindri** (supply of fertilizers to U.P.— demand—etc.)	24th ,,
48.	**Telephone Cable Factory** (annual output)	,, ,,
49.	**National Instruments Factory** (manufacture of optical glass)	,, ,,
50.	**Sindri** (supply of fertilizers to Assam by Rail and Steamer route—difference in freight per ton)	,, ,,
51.	**Sindri** (ammonium sulphate stock in April, May and June '53)	27th ,,
52.	**Sindri** (Stock of fertilizers)	2nd September
53.	**Sindri** (Fertilizer Mission Report—its chief recommendations)	2nd ,,

54.	**Hindustan Housing Factory** (progress—constitution, Managing Agent)	5th September
55.	**Hindustan Housing Factory** (manufacture of pre-stress concrete articles—quantity)	,,
56.	**Hindustan Housing Factory** (Rent—stock position—value)	,,
57.	**Steel Plants** (amount spent on foreign consultants)	,,
58.	**Hindustan Shipyard** (programme for constructing ship)	9th ,,
59.	**Hindustan Shipyard** (payment of subsidy by government)	,,
60.	**Sindri Fertilizers** (day to day interference in its working by Parliament)	16th November
61.	**Sindri** (personnel for ammonium sulphate, plant-training etc.)	,,
62.	**Policy** (fertilizer plants study by Indian team)	,,
63.	**Steel Plant** (agreement with German firm)	19th ,,
64.	**Sindri** (stock of fertilizers)	,,
65.	**Hindustan Shipyard**— (educational facilities for children of staff)	,,
66.	**Hindustan Shipyard** (houses for unskilled workers)	,,
67.	**National Research Development Corporation** (proposal for setting up etc.)	26th ,,
68.	**Singareni Collieries** (loss of life in accidents)	30th ,,
69.	**Fertilizer** (report)	2nd December
70.	**Fertilizers Factories: Sindri & Travancore.** (difference in production costs)	,,
71.	**Hindustan Shipyard** (idle labour)	,,
72.	**Singareni Colleries** (for iron & steel placed by Co.)	7th ,,
73.	**Sindri** (tenders for establishment of urea and ammonium nitrate plants	10th ,,
74.	**Sindri** (shortage of stock worth several lakhs of rupees)	18th ,,
75.	**Sindri** (Sindri allowance to workers—withdrawal etc.)	23rd ,,

1954

1.	**Sindri Fertilizers** (Distribution)	19th February
2.	**N. E. P. A. Mills** (working)	,,
3.	**Steel Plant** (setting up)	,,
4.	**Sindri** (employees, No. etc.)	24th ,,
5.	**Bharat Electronics** (expenses, investment etc.)	26th ,,
6.	**N.E.P.A.** (annual production & costs)	27th ,,
7.	**Sindri** (project etc.)	4th March
8.	**Sindri** (life of plant)	,,
9.	**Fertilizers** (by-products)	8th ,,
10.	**Hindustan Shipyard** (consideration)	,,
11.	**Steel Plants** (production at Rourkella)	,,
12.	**Indian Telephone Industries** (medical facilities to workers)	12th ,,
13.	**H. A. L.**	15th ,,
14.	**H. A. L.** (Employees in Rail-coach Section)	15th ,,
15.	**Sindri** (export)	16th ,,
16.	**Steel Plant** (Board of Directors)	,,
17.	**I. T. I.** (percentage of capacity utilised)	17th ,,
18.	**Second D. D. T. Plant** (starting)	22nd ,,
19.	**Investments in Public Sector** (State-wise)	22nd ,,
20.	**H. A. L.** (profits, participation in management)	24th ,,
21.	**H. A. L.** (Turover)	24th ,,
22.	**Hindustan Machine Tools** (erection)	26th ,,
23.	**Hindustan Shipyard** (engines & boilers)	7th April
24.	**I. T. I.** (variety of steel)	8th ,,
25.	**Sindri** (utilisation of coal ash)	12th ,,
26.	**I. T. I.** (annual requirements of ebonite)	14th ,,

27.	**Sindri** (reduction of production of ammonium sulphate)	21st April
28.	**Hindustan Cables** (technical officers)	26th ,,
29.	**National Research Development Corporation**	28th ,,
30.	**H. A. L. & I. T. I.** (share capital)	28th ,,
31.	**Heavy Electricals** (setting up)	29th ,,
32.	**H. A. L.** (H. T. 10 aircraft)	11th May
33.	**Hindustan Machine Tools**	12th ,,
34.	**Hindustan Machine Tools** (Indians for training abroad)	20th September
35.	**Steel Plant** (Rourkela)	24th ,,
36.	**Industrial Development Corporation** (setting up—shares etc.)	,, ,,
37.	**Sindri** (Survey for expansion)	21st ,,
38.	**Hindustan Antibiotics** (control)	,, ,,
39.	**D. D. T. Factory** (construction)	16th ,,
40.	**I. T. I.** (demand met)	10th ,,
41.	**Hindustan Shipyard**	9th ,,
42.	**H. A. L.** (Aircraft in Hangars)	7th ,,
43.	**H. A. L.** (money spent on workers' quarters etc)	7th ,,
44.	**Industrial Development Corporation** (when to be constituted)	3rd ,,
45.	**N. E. P. A.** (progress—amount spent)	3rd ,,
46.	**State Industrial Undertakings** (Constitution of Central authority)	,, ,,
47.	**H. A. L.** (technical advisers' remuneration)	30th August
48.	**H. A. L.** (cost of overhaul of planes)	,, ,,
49.	**H. A. L.** (No. of H.T. 2 manufactured)	,, ,,
50.	**H.A.L.** (No. of major engines overhauled)	,, ,,
51.	**H.A.L.** (cracks in roofs and walls of tool room building)	25th ,,
52.	**H.A.L.** (cost of Railway Coach)	,, ,,

53.	**H.A.L.** (value of buildings constructed, name of contractors-total payment made etc)	25th August
54.	**H.A.L.** (test beds, No. of accidents)	〃 〃
55.	**Steel Plant** (offer from Britain for installation)	15th November
56.	**D. D. T. Factory** (proposal to establish)	18th 〃
57.	**Sindri** (daily requirement of coke and production capacity)	〃 〃
58.	**Sindri** (increase in current month's production of ammonium sulphate)	〃 〃
59.	**Sindri** (amount paid for iron-oxide used in manufacture of ammonium sulphate)	23rd 〃
60.	**Hindustan Machine Tools** (cost of establishment)	26th 〃
61.	**Penicillin Factory** (reason for fall in production)	26th 〃
62.	**Fertilizer Factories** (establishment of new factors)	〃 〃
63.	**Steel Plants** (No. of applications from abroad for erection)	18th December
64.	**National Industrial Development Corporation** (copy of Memo. & Articles of Assn. and No. of meetings of Board of Directors and activities of the Corporation)	〃 〃
65.	**National Research Development Corporation** (names of various inventions)	3rd 〃
66.	**State Undertakings** (conference of managers and Managing Directors of state undertakings—views before management relations)	6th 〃
67.	**State Undertakings** (Names of Regd. trade unions in enterprises under central govt. control)	〃 〃
68.	**Steel Plant** (Russian Experts survey—location and plants)	9th 〃
69.	**Sindri** (value of shortage in the stocks of raw materials)	〃 〃
70.	**State Industrial Undertakings** (constitution of a central authority)	〃 〃
71.	**I. T. I.** (employment of retired officers—reasons)	10th 〃
72.	**Hindustan Cables** (date of actual production, length of cables and value)	14th 〃

73.	**Steel Palnt** (training of Indian technicians)	14th December
74.	**Sindri** (quantity of ammonium sulphate during Jan.-Sept. '54—quantity sold—value)	17th ,,
75.	**I. T. I.** (No. of learners, trade clerks appointed during 52-53, 53-54—How many belong to S. C. & S. Tribes)	20th ,,
76.	**Steel Plant** (progress in the construction, staff recruited, amount spent)	22nd ,,
77.	**Sindri** (period of writing off development expenditure on recruitment of staff and maintenance of town)	
78.	**I. T. I.** (proposal for revision of wage structure of employees—decision of Govt.)	24rd ,,

1955

1.	**State Industries** (P. A. C.'s recommendations implementation)	22nd February
2.	**Hindustan Insecticides Ltd.** (date of production and turnover)	,,
3.	**N. E. P. A.** (daily production)	,,
4.	**Sindri** (ammonium sulphate during last 3 months)	,,
5.	**Sindri** (ammonium sulphate production during 1954 and value—quantity sold)	25th ,,
6.	**Steel Plant** (British proposal for setting up a plant)	,,
7.	**Steel Plant** (Indo-Soviet agreement)	,,
8.	**Steel Plant** (Russian specialists)	,,
9.	**I. T. I.** (revision of agreement with Automatic Telephone Orbetic Co. Ltd. in view of P.A.C. Report X)	28th February
10.	**I. T. I.** (Managing Director's visit to foreign countries—its result)	1st March
11.	**I. T. I.** (parties to whom manufacturing goods are sold —prices—value of products purchased by P. T. Mg.)	3rd ,,
12.	**Second D. D. T. Factory** (sites and help from U.K. T.C.A. Mission)	7th ,,

13.	**Singareni Collieries** (loan from Special Development Fund of the Hyderabad Govt.)	7th March
14.	**Hindustan Cable Factory** (expenditure incurred in establishment—average monthly production—yearly target	12th ,,
15.	**Govt. Housing Factory** (disposal of supplies stores)	,, ,,
16.	**Hindustan Shipyard** (wage structure revision)	16th ,,
17.	**Hindustan Steel Plant** (expenditure incurred on township of Rourkella)	16th ,,
18.	**Rourkella Steel Project** (Krupps Demag final report)	21st ,,
19.	**Heavy electricals** (report of enquiry committee)	29th ,,
20.	**Sindri** (names of countries from whom tenders taken for imports of ammonium sulphate)	2nd April
21.	**Hindustan Insecticides** (No. of directors, constitution of Board)	,, ,,
22.	**I.T.I.** (No. of non-Indians employed)	4th ,,
23.	**N.E.P.A.** (name of place and other factors)	6th ,,
24.	**Hindustan Steel** (No. of appointments made in classes I to IV)	,, ,,
25.	**Singareni Collieries** (contruction of workers' quarters)	7th ,,
26.	**Sindri** (accumulated stock of ammonium sulphate July '54 to Jan. '55)	,, ,,
27.	**Selection of Managing Director** (Standard for selection of Mg. Director & General Manager)	19th ,,
28.	**Govt. Industrial Enterprises** (all the enterprises under control of Ministry of Production brought under company form of management)	,, ,,
29.	**Small Scale Industries Corporation** (names of industries having assistants—nature and terms)	22nd ,,
30.	**Bhilai** (exam. by verious teams of the site)	,, ,,
31.	**Rourkella** (progress of work in construction and steps to check delay)	,, ,,
32.	**National Research Development Corporation**	26th ,,

33.	**D. D. T. Factory-Delhi** (principles for selection of Directors)	27th April
34.	**Hindustan Steel** (No. of technical and non-technical appointments)	,, ,,
35.	**Rourkella Steel**	25th July
36.	**Steel Plants** (run by public sector)	,, ,,
37.	**Nahan Foundry** (industrial dispute enquiry and action taken by govt.)	28th ,,
38.	**Heavy Electricals** (technical consultants)	,, ,,
39.	**Bhilai Steel** (design of the plant etc.)	2nd August
40.	**State Trading Corporation** (setting up etc.)	,, ,,
41.	**Nangal Fertilizers** (decision taken on establishment of factory)	5th ,,
42.	**Second D.D.T. Factory** (site and estimated annual capacity)	,, ,,
43.	**National Industrial Development Corporation** (names of industries taken up for study and investigation)	,, ,,
44.	**D. D. T. Factory-Delhi** (monthly output)	,, ,,
45.	**National Research Development Corporation** (licence to a German firm granted—terms and conditions)	13th ,,
46.	**Russian Steel Plant** (details of Russian aid)	16th ,,
47.	**Nevyeli Lignite Corp.** (period of work remaining stand-still)	,, ,,
48.	**Sindri** (No. of engineers and technicians trained so far)	,, ,,
49.	**Hindustan Shipyard** (No. of foreigners employed)	,, ,,
50.	**Sindri**	17th ,,
51.	**Hindustan Shipyard** (standardisation of ships)	19th ,,
52.	**Nahan Foundry** (labour trouble)	,, ,,
53.	**Sindri** (expansion schemes)	23rd ,,
54.	**N. E. P. A.** (quantity of paper produced)	,, ,,
55.	**Hindustan Housing Factory** (expenses in connection with establishment and working-material produced)	,, ,,

56.	**Rourkella and Bhilai** (housing plans—cost)	8th September
57.	**Rourkella Plants** (No. of displaced families employment question)	,, ,,
58.	**Bharat Electronics** (construction work)	12th ,,
59.	**Sindri** (upto date position of stock)	,, ,,
60.	**Hindustan Machine Tools** (purchase of machinery etc. through open tenders—value of machinery purchased)	,, ,,
61.	**Hindustan Shipyard** (causes for heavy loss in 53-54)	,, ,,
62.	**Bhilai** (No. of Indians to be sent to Russia for training)	,, ,,
63.	**Hindustan Aircraft** (capacity for production of rail coaches)	15th ,,
64.	**State enterprises** (Name etc.)	,, ,,
65.	**Hindustan Aircraft** (manufacture of basis Jet Trainer)	23rd ,,
66.	**Hindustan Aircraft** (supply of HT2 aircraft to foreign countries)	,, ,,
67.	**Bhilai** (Nature of works during 1955-56)	29th ,,
68.	**Sindri** (agriculturists representative on the Board of Directors vide E. C. Report No. 13)	,, ,,
69.	**Rourkella Steel** (preference to displaced persons)	,, ,,
70.	**I.T.I.** (annual production—prices as compared to U. K.)	22nd November
71.	**I.T.I.** (No. of workers employed category-wise)	,, ,,
72.	**Hindustan Housing Factory** (nature of work done—staff and expenses)	24th ,,
73.	**National Industrial Development Corporation** (terms and names of industries which have received help)	30th ,,
74.	**Hindustan Machine Tools** (No. of employees category-wise)	,, ,,
75.	**Hindustan Aircraft** (manufacture of Folland Gnat aircrafts)	2nd December
76.	**Sindri** (accounts 54-55—net profits etc.)	3rd ,,

77.	**Ashoka Hotel** (terms with private collaboration)	3rd	December
78.	**Nahan Foundry** (report of the Enquiry Committee)	,,	,,
79.	**Sindri** (agriculturists' representation on the Board)	,,	,,
80.	**Hindustan Machine Tools** (cases of delay in setting up the factory)	,,	,,
81.	**Sindri** (distribution of fertilizers) vide E. C. Report No. 13.	,,	,,
82.	**Hindustan Aircraft** (P.A.C. Report No. 14 regarding maintenance of accounts departmental-wise)	6th	,,
83.	**Hindustan Aircraft** (Rail-coach building section)	9th	,,
84.	**Hindustan Shipyard** (No. of ships built)	,,	,,
85.	**Neyveli Lignite Corp.** (East German experts for exploitation)	15th	,,
86.	**Bhilai** (scheme submitted by Russian experts)	,,	,,
87.	**Sindri Fertilizers** (re-employed & retired Govt. servants in the administrative offices)	20th	,,
89.	**Nationalised industries** (sixteenth report of the committee on organisation and Admn.)	22nd	,,
89.	**Hindustan Shipyard** (recommendations of 14th E.C. committee Report—action taken)	23rd	,,
90.	**Sindri** (bonus to workers)	,,	,,
91.	**Sindri** (workers' representation for free supply of water and electricity)	,,	,,
92.	**Hindustan Cables** (No. of foreigners employed)	,,	,,

1956

1.	**Hindustan Machine Tools Ltd.** (Firm of Architects in Delhi entrusted with construction of staff quarters and fees paid)	16th February
2.	**Penicillin Plant** (quantity of production)	,, ,,
3.	**National Industrial Development Corporation** (scheme for laying the foundations of heavy industries in India during Second Five Year Plan—main features)	,, ,,
4.	**Sindri** (production target in 1955 and stage of erection of coke oven plant)	,, ,,
5.	**Neyvelli Lignite Corp.** (present position of the project)	,, ,,
6.	**Bharat Electronics** (construction of buildings entrusted to M.E.S. and subsequent change in plans)	20th ,,
7.	**Durgapur Steel Plant** (agreement with British and financing of project)	21st ,,
8.	**Nahan Foundry** (loss suffered in 55-56)	,, ,,
9.	**Government Housing Factory** (Articles produced and how much each month)	,, ,,
10.	**Rourkella Steel Plant** (progress in construction and subsidiary industries to be developed)	,, ,,
11.	**Heavy Electricals** (text of agreement with Britain and items produced)	23rd ,,
12.	**Hindustan Machine Tools** (output of lathes—programme and targets for the manufacture of tools)	,, ,,
13.	**National Industries Development Corporation** (project reports relating to industries drawn up—whether any scheme drawn up for rehabilitation and modernisation of the Cotton Textile Industry)	29th ,,
14.	**State Trading Corporation** (setting up)	,, ,
15.	**Sindri** (cost and income of Sindri News—number of copies printed—supplied to subscribers and complimentaries distributed)	,, ,
16.	**D. D. T.** (quantity produced)	,, ,
17.	**Sindri** (number of foreigners employed)	,,

18.	**Bhilai Steel Plant** (Total number of labourers, skilled, wage scales, personnel of recruiting and selecting authority —percentage recruited from Madhya Pradesh)	20th	February
19.	**Rourkella Steel Plant** (final report of German experts—type of method suggested as regards production is concerned)	5th	March.
20.	**Durgapur Steel** (High official in-charge placed under suspension —allegations against him)	,,	,,
21.	**Bhilai Steel** (stage of final project)	8th	,,
22.	**Hindustan Aircraft** (production of electrical coaches for railways— annual out-turn)	12th	,,
23.	**Durgapur Steel** (Important features of agreement with Britain)	,,	,,
24.	**Sindri** (bonus to workers)	,,	,,
25.	**Nevyeli Lignite Corp.**	15th	,,
26.	**Durgapur Steel** (rate of interest to be paid on loans to be raised in U. K. —extent of use of sterling balance)	20th	,,
27.	**Sindri** (housing programme for workers)	28th	,,
28.	**N.E.P.A.** (annual subsidy by Centre—total production in 1955)	,,	,,
29.	**Bhilai** (tenders for supply of tractors and bulldozers of certain make)	,,	,,
30.	**Nahan Foundry** (appointment of sole dealers and stockists— rate of commission etc.)	,,	,,
31.	**D.D.T. at Delhi** (steps for expansion)	,,	,,
32.	**Pimpri Penicillin Factory** (expansion—target of production)	3rd	April
33.	**D. D. T. Factory** (quantity produced)	5th	,,
34.	**Bhilai** (persons uprooted as a consequence of working of plant)	,,	,,
35.	**Hindustan Housing Factory** (projects for efficient working—any future decision)	14th	,,
36.	**Nahan Foundry** (labour organisations)	,,	,,

37.	**Hindustan Insecticides** (contributions by employees to State Employees' Insurance Corporation—Enquiry Committee of M. P's. to enquire into the state of affairs of the factory)	2nd	May
38.	**Nahan Foundry** (decision on the report of the working of Nahan Foundry)	17th	,,
39.	**Hindustan Steel Limited** (number of officers of Class I and II)	,,	,,
40.	**Penicillin Factory** (Value of rupees pencillin manufactured)	21st	,,
41.	**Hindustan Machine Tools** (name of persons to whom lathes have been sold —rates—annual sale—foreign parts used)	26th	,,
42.	**Rourkllea Steel Plant** (recruitment of staff)	30th	,,
43.	**Heavy Electricals** (training Institute—number of trainees)	,,	,,
44.	**Neyveli Lignite Corp.** (latest position)	16th	July
45.	**Hindustan Aircraft** (number of HT-2 Aircraft manufactured)	18th	,,
46.	**Heavy Electricals** (progress)	20th	,,
47.	**Hindustan Machine Tool Factory** (production figures)	,,	,,
48.	**D.D.T. Factory in Kerala** (setting up)	23rd	,,
49.	**Rourkella Steel Plant** (contruction work, buildiers of coke-oven plant)	,,	,,
50.	**I. T. I.** (difficulty of water supply)	25th	,,
51.	**Bharat Electronics** (details of production)	,,	,,
52.	**Bharat Electronics** (agreement with French firms—number of Indian technicians—royalty)	,,	,,
53.	**Hindustan Aircraft** (housing programme for the workers of different categories)	26th	,,
54.	**Ashoka Hotel** (loan given to company)	,,	,,
55.	**National Small Industries Corporation** industries where started)	,,	,,
56.	**Hindustan Housing Factory** (prospects for efficient working)	27th	,,
57.	**Sindri** (Bonus to workers)	,,	,,

58.	**Durgapur Steel Plant** (enquiry into allegations completed)	1st	August
59.	**Rourkella Steel Plant** (Chief Medical Officer—name—qualifications etc.)	,,	,,
60.	**Annual Report on State Undertakings** (auestion of publishing finalised nature of decisions)	3rd	,,
61.	**Bhilai and Durgapur Steel Plants** (stage of the proposal for setting up structural cum-machine shop)	6th	,,
62.	**Rourkella** (number of foreigners employed—salaries paid etc.)	,,	,,
63.	**D. D. T. Factory, Delhi** (member of Board Directors who is also Director of D.C.M. Chemical works—agreement for the supply of raw materials to D. D. T. factory)	14th	,,
64.	**Hindustan Antibiotics** (implementation of 27th Report of Estimates Committee)	,,	,,
65.	**Hindustan Housing Factory** (any improvement after formation of partnership with M/s Basakha Singh Wallenbarg Ltd.)	,,	,,
66.	**National Instruments Factory, Calcutta** (losing concern).	20th	,,
67.	**Nahan Foundry** (Enquiry Committee Report)	,,	,,
68.	**Hindustan Shipyard** (Industrial Training Centre)	23rd	,,
69.	**Hindustan Shipyard** (scheme for extension)	,,	,,
70.	**Heavy Electricals** (Time by which production will start)	,,	,,
71.	**Durgapur Steel Plant** (Final agreement with British Firm)	1st	September
72.	**Hindustan Antibiotics** (agreement for sale and distribution)	,,	,,
73.	**Hindustan Shipyard** (annual requirements of timber-imports etc.)	,,	,,
74.	**Hindustan Aircraft** (negotiations with a German firm)	,,	,,
75.	**Nahan Foundry** (number of infringement cases)	5th	,,
76.	**National Small Industries Corporation** (activities)	,,	,,
77.	**Sindri** **(minimum wages)**	12th	,,

78.	**Hindustan Shipyard** (ships under construction)	12th	September
79.	**Nangal Fertilizers** (Preliminary Report)		,,
80.	**National Coal Development Corporation** (taking over of State collieries)	14th	November
81.	**Ashoka Hotel** (expenditure incurred in construction, equipment, furniture and staff—names of managerial staff, qualifications, previous experience, etc.)		,,
82.	**Steel Plants** (progress of 3 plants)	16th	,,
83.	**Sindri Fertilizers Factory** (*Ad-hoc* payment to workers)	19th	,,
84.	**Hindustan Housing Factory** (working of the factory reviewed)	22nd	,,
85.	**Fertilizers and Chemicals Ltd. Alwaye** (loan recommended).	27th	,,
86.	**Lignite Project, Neyveli**	29th	,,
87.	**D. D. T. Factory, Travancore-Cochin** (date when to be opened)	,,	,,
88.	**State Undertakings** (Chairmanship of various undertakings by Ministers—reasons)	4th	December
89.	**Steel Board** (proposal to coordinate work of 3 plants—constitution etc.)	,,	,,
90.	**Neyveli Lignite Corp.** (actual work and progress)	,,	,,
91.	**Ashoka Hotel** (strength and annual cost of staff)	5th	,,
92.	**H.A.L.** (number of technical personnel to be trained for manufacture of coaches by MAN)	7th	,,
93.	**National Small Industries Corporation** (Branches—its places)	10th	,,
94.	**Ashoka Hotel** (furniture, articles and amount tenders asked)	,,	,,
95.	**National Industrial Development Corporation** (loan and financial assistance granted to industries since its inception)	,,	,,
96.	**State Undertakings** (question of publishing detailed annual reports on working)	17th	,,

97.	**Nangal Fertilizer Project** (Recommendations of Preliminary Report submitted by 3 foreign firms for fertilizer project)	21st December
98.	**Hindustan Housing Factory** (Personnel of Expert Committee—recommendations)	,, ,,

APPENDIX IV

Members of Board of Directors of the Corporations Mentioned in Chapter VIII

I. Damodar Valley Corporation

1. P.S. Rau, I.C.S. (Retd.)—Chairman.
2. A. B. Ganguly, I. C. S.
3. S. P. Singh, I. A. S.

II. Rehabilitation Finance Administration

1. P.C. Das Gupta—Chief Administrator.
2. L. J. Johnson, I. C. S., Chief Settlement Commissioner, Government of India.
3. M. S. Bhatnagar, Jt. Secretary, Ministry of Finance, Govt. of India.
4. S.C. Kagti, Secretary to Assam Government.
5. N. N. Mazumdar, Secretary to West Bengal Government.
6. Chandulal P. Parikh, M. P.
7. Pandit Thakurdas Bhargava, M.P.
8. Mrs. Sucheta Kripalani, M.P.
9. Sushil Ranjan Chatterjee, formerly member of the Lok Sabha.

III. Industrial Finance Corporation

1. K. R. K. Menon—Chairman.
2. S.V. Ramamurti, I.C.S. (Retd.), Adviser, Planning Commission.
3. M.R. Bhide, I.C.S. Jt. Secy., Planning Commission.
4. L. S. Vaidyanathan, Managing Director, Life Insurance Corporation.
5. S. C. Roy, Director of Extension and Training, Food & Agriculture Ministry, Govt. of India.
6. B. Venkatappiah, Dy. Governor, Reserve Bank of India.
7. L. K. Jha, I.C.S., Spl. Secy, Ministry of Commerce & Industry, Govt. of India.
8. V. P. Varde, Businessman.
9. G. D. Ambekar, Trade Unionist.
10. S. P. Virmani, Industrialist.
11. M. C. Muthiah, Chairman, Indian Overseas Bank.
12. S. K. Basu, Professor, Calcutta University.

IV. Indian Airlines Corporation

1. Shankar Prasad, I.C.S.—Chairman
2. S. Ratnam, Secretary, Ministry of Finance, Govt. of India.
3. M. M. Philip, I.C.S. Director-General Post & Telegraphs, Govt. of India.
4. Air Marshal Mukerjee, Chief of Air Staff.
5. L. C. Jain, I.C.S., Director-General, Civil Aviation, Govt. of India.
6. M.J.B. Maneckji, Industrialist.
7. M. L. Khaitan, Industrialist. Chairman, Bata Shoe Co., Ltd.
8. J.R.D. Tata, Chairman, Tata Sons Ltd.
9. Michael John, Trade Unionist.

V. Air India International

1. J. R. D. Tata, Tata Sons Ltd, Chairman.
2. Air Marshal Mukerjee, Chief of Air Staff.
3. Shankar Prasad, I.C.S., Chairman I. A. C.
4. L. C. Jain, Director-General Civil Aviation, Govt. of India.
5. B. N. Jha, I.C.S., Secy. Ministry of Communications Govt. of India.
6. M. V. Rangachari, Secy. Ministry of Finance, Govt. of India.
7. K. C. Mahindra, Chairman, Mahindra and Mahindra Co. Ltd.
8. Michael John, Trade Unionist
9. D. K. Patel—Managing Director.

VI. State Bank of India

1. P.C. Bhattacharya—Chairman
2. N. V. Gadgil—Vice Chairman
3. B. P. Patel, Managing Director
4. T. S. Raghavachari, Managing Director.
5. H. M. Patel, I.C.S., Principal Secy. Ministry of Finance, Govt. of India.
6. B. Venkatappiah, Dy. Governor, Reserve Bank of India.
7. J. D. Choksi, Tata Sons Ltd.,
8. Pratapsingh Mathuradas, Businessman.
9. D. P. Goenka, Industrialist
10. O. T. Jenkins, President, Associated Chamber of Commerce, Calcutta.
11. K. Ramunni Menon, Retd. Chief Secretary, Govt. of Madras.
12. Maddi Sudersanam, Businessman.
13. H. M. Hasham Premji, Chairman, Bombay Electricity Board.
14. Ramnath A. Podar, Industrialist, Podar Group of Concerns.
15. Prof. D. R. Gadgil, Director, Gokhale Institute of Politics and Economics, Poona.
16. Sachin Chaudhri, Advocate.
17. Dr. Triguna Sen.
18. S. P. Virmani, Industrialist.
19. G. L. Bansal, Secy-General, Federation of Indian Chambers of Commerce & Industry.
20. V. S. Tyagaraja Mudaliar.

VII. Life Insurance Corporation

1. G. R. Kamat, I.C.S.—Chairman
2. L. K. Jha, I.C.S., Spl. Secy., Ministry of Commerce & Industry, Govt. of India.
3. B. K. Kaul, I.C.S., Jt. Secy, Ministry of Finance, Govt. of India.
4. V. L. Mehta, Chairman, Khadi & Village Industries Commission
5. Prof. D. G. Karve, The Reserve Bank of India.
6. Md. H. Premji, Industrialist.
7. Dhiren Mitra, Retd. Solicitor-General, Govt. of India.
8. S. M. Ramakrishna Rao, Businessman.
9. C. K. Jain, Businessman.
10. Lala Raghuram Swarup, Businessman.
11. A. Rajagopalan, Managing Director.
12. L. S. Vaidyanathan, Managing Director.
13. K.R. Srinivasan, Executive Director.
14. V. H. Vora, Executive Director.
15. D.P. Guzdar, Executive Director.

VIII. Central Warehousing Corporation:

1. P. N. Thapar, I.C.S.,—Secy., Ministry of Food & Agriculture Govt. of India. —Chairman
2. Krishan Chand, I.C.S., Jt. Secy., In-charge of Cooperation, Ministry of Food & Agriculture, Govt. of India. —Vice-Chairman.
3. K. L. Ghei, Financial Adviser to the Ministry of Food & Agriculture, Govt. of India.
4. H. P. Sinha, I.S.E., Consulting Engineer, (Road Development), Ministry of Transport, Govt. of India.
5. B. P. Patel, I.C.S., Managing Director, State Bank of India.
6. Dip Narain Sinha, Minister, Irrigation and Power, Bihar.
7. M. R. Bhide, I.C.S., Jt. Secy., Planning Commission.
8. B. Venkatappiah, Dy. Governor, Reserve Bank of India.
9. Prof. D. G. Karve, Reserve Bank of India.
10. P.S. Rajagopal Naidu, M. P.,
11. A.M. Walker, General Manager, Punjab National Bank Ltd.
12. Raghuraj Swarup, Businessman.
13. K. P. Goenka, Businessman.

14. L. G. Rajwade, I.C.S.,—Managing Director.

IX. Employees' State Insurance Corporation

1. Gulzarilal Nanda, Minister for Labour & Employment, Govt. of India —Chairman.
2. D. P. Karmarkar, Minister for Health, Govt. of India.
3. Abid Ali, Dy. Minister for Labour & Employment, Govt. of India.
4. Vishnu Sahay, I.C.S., Secretary, Ministry of Labour & Employment, Government of India.
5. Lt. Col. C.K. Lakshmanan, Director-General of Health Services, Govt. of India.
6. D. S. Nakra, Jt. Secy., Ministry of Finance, Govt. of India.
7. N. S. Mankikar, Chief Adviser of Factories, Ministry of Labour, Govt. of India.
8. S. K. Mallick, I.C.S., Secretary to Assam Government.
9. B. P. Singh, I.A.S. Secretary to Bihar Government.
10. D. R. Pradhan, I.C.S., Secretary to Bombay Government.
11. W. V. Oak, I.A.S., Labour Commissioner, Madhya Pradesh.
12. Mangat Rai, I.C.S., Chief Secretary, Punjab Government.
13. V. Balasundram, Commissioner of Labour, Madras.
14. H. K. Ghosh, I.A.S., Orissa Government representative.
15. O. N. Misra, I.A.S., Provident Fund Commissioner, U. P.
16. S. K. Banerji, M.C., I.A.S., West Bengal Govt. Rep.
17. K. N. Anantharaman, I.C.S. Secretary to Govt. of Andhra Pradesh.
18. B. M. Abu Baker, I.A.S., Dy. Commissioner, Kolar, Mysore.
19. A.K. Roy, Secretary to Rajasthan Government.
20. V.R.N. Nair, Surgeon-Genreral, Kerala.
21. Dr. B. R. Seth, Director of Industries & Labour, Delhi.
22. S.C. Roy, Director of Extension and Training, Ministry of Food & Agriculture, Govt. of India.
23. R. K. Parikh, Businessman.
24. Madanmohan Managaldas, Industrialist.
25. K. N. Modi, Managing Director, Modi Spinning & Weaving Mills.
26. Somnath P. Dave, M.P.
27. Nirmal Kumar Sen. I.N.T.U.C.
28. Kashinath Pandey, General Secretary, I.N.T.U.C. (U.P. Branch)
29. S. A. Dange, M.P., General Secretary, A.U.T.I.C.
30. V.B. Karnik, Hind Majdoor Sabha
31. Dr. Chamanlal M. Mehta, Indian Medical Asociation.
32. Dr. V.D. Sathaya, All India Licentiate Aerociate.
33. Gopinath Singh, M.P.
34. Ghanshyamlal Chottelal, M.P.

APPENDIX V

List of Board of Directors of Central Government Companies

1. MINISTRY OF COMMERCE AND INDUSTRY

1. Sindri Fertilizers and Chemicals (Private) Limited

Chairman

Lala Shri Ram	Chairman, Delhi Cloth and General Mills.

Directors

S. Ratnam	Secretary, Ministry of Finance.
B. C. Mukerjee, ICS	Managing Director, Nangal Fertilizers.
T.C. Puri, ICS	Joint Secretary, Ministry of Food and Agriculture.
G. J. Ghandy	Director of Tatas
Digvijai Narayan Singh—M.P.	
S. R. Vasavada	I. N. T. U. C.
K.L. Ghei	Joint Secretary, Ministry of Finance.
Dr. A. Nagaraj Rao	Chief Industrial Adviser
C.K. Raman, ICS	Secretary, Bihar Govt.

Managing Director

V. Nilkantan	Retd. Member, Railway Board.

2. Nangal Fertilizers and Chemicals (Private) Limited

Chairman and Managing Director

B. C. Mukerjee, ICS

Directors

P. N. Thapar, ICS	Secretary, Ministry of Agriculture.
N. Subrahamanyam ICS	Joint Secretary, Ministry of Commerce and Industry.
K. L. Ghei	Joint Secretary, Ministry of Finance.
Baldev Singh	M. P.
K.C. Mahindra	Chairman, Mahindra and Manindra Co. Ltd.
S.D. Khungar, ISE	General Manager, Bhakra Dam.
Dr. A. Nagaraja Rao	Chief Industrial Adviser.
Dr. H. J. Bhaba	Secretary, Department of Atomic Energy
P.A. Narielwala	Director of Tatas

3. Hindustan Machine Tools (Private) Limited.

Chairman

N. R. Pillai, ICS	Secretary General, Ministry of External Affairs.

Directors

R. L. Kirloskar	Industrialist.
C.M. Poonacha	Ministry for Industries, Mysore Govt.
L. K. Jha, ICS	Special Secretary, Ministry of Commerce and Industry.
N. N. Wanchoo, ICS	Joint Secretary, Ministry of Defence.
S. Ratnam	Secretary, Ministry of Finance.
K. Narayanswami	Director of Industries Mysore.
E.W. Issacs	Additional Member, (Mechanical) Railway Board.

Managing Director

M. K. Mathulla

4. Hindustan Cables (Private) Limited

Chairman

N. Subrahamanyan, ICS	Joint Secretary, Ministry of Commerce and Industry.

Directors

G.D. Ambekar	I.N.T.U.C.
M. P. Birla	Industrialist
V. Nilkantan	Managing Director, Sindri Fertilizers and Chemicals.

V.N. Rajan, ICS	Director General, Supplies and Disposals.
C.A. Cornelius	..
B.R. Murgai	Deputy Secretary, Ministry of Finance.
B.D. Kalelkar	Industrial Adviser.
B.D. Nijhawan	..
D.C. Driver	..

Managing Director

K.N.R. Pillai

5. Hindustan Insecticides (Private) Ltd.

Chairman ..

U. L. Goswami	Joint Secretary, Ministry of Commerce and Industry.

Directors

Dr. Yudhvir Singh	Ex-Minister, Delhi State.
Dr. C.L. Katial	Retired Director General, Employees' State Insurance Corporation.
Dr. G.P. Kane	Industrial Adviser, Ministry of Commerce and Industry.
Lt. Col. Jaswant Singh	Director, Malaria Institute, Delhi.
Dr. B. Mukerji	Director, Central Drug Research Institute.
Dr. S.S.Rao	..
H. L. Guha	Under Secretary, Ministry of Finance.

Managing Director

S.S. Jaggia

6. Hindustan Anti-biotics (Private) Ltd.

Chairman

Dr. Nagaraj Rao	Chief Industrial Adviser, Ministry of Commerce & Industry.

Directors

P. M. Nabar	Officer on Special Duty, Ministry of Health.
P.M. Wagle	Retired Asstt. Director of Public Health Haffkine Institute, Bombay.
B.K. Nair	I.N.T.U.C. (Kerala)
H. L. Guha	Under Secretary, Finance Ministry.
S.K. Borkar	Drug Controller,
Dr. C.G. Pandit	Secretary, Indian Council of Medical Research.
Dr. K. Venkataraman	Director, National Chemical Laboratory, Poona.

Managing Director

Lt. Col. J.R. Dogra

7. Heavy Electricals (Private) Limited.

Chairman

L.K. Jha, ICS	Special Secretary, Ministry of Commerce and Industry.

Directors

Mohammed Hyat	Member, Central Water and Power Commission.
K.L. Ghei	Joint Secretary, Ministry of Finance.
A. S. Gadkary	Technical Adviser, Ministry of Commerce and Industry.
K. C. Bakhle	Director of Tatas.
P.C. Mukerjee	Chairman of Railway Board.
Prof. M.S. Thacker	Director General, C.S & I. R.
P.S. Bapna	Secretary, Planning and Development, Madhya Pradesh Govt.
B.D. Kalekar	Industrial Adviser, Ministry of Commerce and Industry.
K.K. Birla	Director of Cotton Agents (Private) Ltd.

8. Exports Risks Insurance Corporation (Private) Ltd.

Chairman

R. M. Gandhi

Directors

D.P. Geoenka	President, Indian Jute Mills Association.
A.M.M. Murugappa Chattiar	Businessman.

R.N. Phillips	Director of Export Promotion.
V.G. Pendarkar	Reserve Bank of India.
P.K. Ganpati	Under Secretary Minstry of Finance

Managing Director

T.C. Kapoor	Officer on Special Duty, Ministry of Commerce and Industry.

9. State Trading Corporation of India (Private) Ltd.

Chairman

K.B. Lal, ICS	Joint Secretary, Ministry of Commerce and Industry.

Directors

Ashfaque Hussain	Development Commissioner, Ministry of Commerce & Industry
Nagendra Singh ICS	Joint Secretary, Ministry of Transport
V.N. Rajan, ICS	Director General, Supplies and Disposals.
K.L. Ghei	Joint Secretary, Ministry of Finance.
H. D. Singh	Director, Railway Board.
N. Subrahmanyam, ICS	Joint Secretary Ministry of Commerce and Industry.

Managing Director

D. Sandilya	Joint Secretary, Ministry of Commerce and Industry.

10. National Industrial Development Corporation (Private) Ltd.

Chairman

Morarjee R. Desai	Minister for Commerce and Industry.

Dy. Chairman

M.M. Shah	Minister for Industries

Directors

S. Bhoothalingam, ICS	Secretary, Ministry of Steel.
B.K. Nehru, ICS	Secretary, Ministry of Finance.
J.R.D. Tata	Chairman, Messrs Tata Sons Limited.
G.D. Birla	Managing Director, Birla Brothers, Ltd.
Kasturbhai Lalbhai	Millowner and Banker
Shanti Prasad Jain	Chairman, Punjab National Bank.
Sir A. Ramaswami Mudaliar	M.P.
G.D. Ambekar	I. N. T. U. C.
K. L. Ghei	Jt. Secretary, Ministry of Finance.
B.P. Singh Roy	Chairman, Basanti Cotton Mills, Ltd.
F. C. Badhwar	Managing Director, Bird and Company Ltd.
Dr. M.S. Thacker	Director General, C.S. & I. R.
L. K. Jha I.C.S.	Spl. Secy., Ministry of Commerce and Industry.
G. B. Kotak	
Khandubhai Desai	

Managing Director

Dr. A. Nagaraj Rao	Chief Industrial Adviser.

11. National Small Industries Corporation (Private) Ltd.

Chairman

Ashfaque Hussain	Development Commissioner, Ministry of Commerce and Industry

Directors

G. L. Oza,	M. P.
G. L. Bansal	Secretary General, Federation of Chambers of Commerce and Industry.
Santokh Singh	....
Pupul Jayakar	Hony. Director, All India Handloom Board.

B.N. Swaroop	Dy. Secretary, Ministry of Commerce and Industry.
Dr. P.C. Alexander	Dy. Secy. Ministry of Commerce and Industry.
B.D. Kumar	Director of Coordination and Statistics, Directorate of Supplies and Disposals.
R.G. Mundkur	Deputy Secretary, Ministry of Finance.

Managing Director

A.S.E. Iyer. ....

12. National Small Industries Corporation (Bombay).

Chairman

N. Swamy	Joint Development Commissioner, Bombay

Directors:

M. Bhatnagar	Joint Development Commissioner, Ministry of Commerce and Industry.
R.U. Patel	Regional Director, Small Industries Service Institute (Bombay).

Managing Director

A.S.E. Iyer

13. National Small Industries Corporation (Calcutta).

Chairman

Dilip K. Bhattacharya	Joint Development Commissioner, Ministry of Commerce and Industry.

Directors

E.P. Raju	Joint Development Commissioner (Hyderabad).
K. S. Roy Choudhary	Director, Small Industries Service Institute, Calcutta.

Managing Director

A.S.E. Iyer

14. National Small Industries Corporation (Delhi)

Chairman

Hari Krishan Mathur	Joint Development Commissioner, Ministry of Commerce and Industry.

Directors

Prem Lal Sehgal	Director, Small Industries Services Institute.
N. Swami	Joint Development Commissioner, Bombay.

Managing Director

A.S.E. Iyer

15. National Small Industries Corporation (Madras) Private Ltd.

Chairman

P.Sabanayagam	Jt. Development Commissioner, Ministry of Commerce and Industry

Directors

E.P. Raju	Joint Development Commissioner, Secunderabad.
P. Govind Menon	Director, Small Industries Services Institute, Madras

Managing Director

A.S.E. Iyer

16. National Instruments (Private) Ltd.

Chairman

N. Subrahamanyam ICS	Joint Secretary, Ministry of Commerce and Industry.

Directors

B.R. Murgai	Deputy Secretary, Ministry of Finance.
A. Mitra, ICS	Secretary, Ministry of Commerce and Industry, Govt. of West Bengal.

Director Incharge

S.D. Joshi

N. R. Banerjee

A. S. Bam, ICS	Deputy Secretary, Rehabilitation Ministry, Govt. of India.
T. R. Gupta	Joint Secretary, Development Department, Govt. of West Bengal.
A.P. Mathur	Joint Chief Controller of Export and Import, Calcutta.
B.D. Kalelkar	Industrial Adviser, Ministry of Commerce and Industry.
S.J. Shahney	Asstt. Director General Ordnance Factories, Ministry of Defence.

17. Nahan Foundry (Private) Ltd.

Chairman

N. Subrahamanyam ICS	Joint Secretary, Ministry of Commerce and Industry.

Directors

K.N. Channa	Chief Secretary, Himachal Pradesh Government.
S. Gopalan	Secretary, National Industrial Development Corporation.
B.R. Murgai	Dy. Financial Adviser, Ministry of Finance.
A.B. Malik, IAS	Additional Secretary (Development) Himachal Pradesh Govt.
Arjun Singh	
N. C. Mallick	
B.D. Kalalkar	Industrial Adviser, Ministry of Commerce and Industry.

2. MINISTRY OF COMMUNICATIONS

1. Indian Telephone Indstries (Private) Banglore.

Chairman

B.N. Jha, ICS	Secretary, Ministry of Communications.

Directors

R.C. Vaish	Chief Engineer, Post & Telegraphs.
V.N. Chandavarkar	Industrialist
P.A. Narielwala	Director of Tatas
S. Vishwanathan	Dy. Secretary, Ministry of Finance.
K. Narayanswamy	Director of Industries Mysore.
S. D. Ramakrishna Rao	..

Managing Director

Jagdish Prasad

2. Government Telephones Board Private) Delhi

Chairman

M.M. Phillips ICS	Director General P & T

Directors

R.C. Vaish	Chief Engineer, P & T
C.V. Cunningham	Senior Deputy Director General, Post and Telephones
K.Y. Bhandarkar	Joint Secretary Ministry of Law
S.D. Nargolwala	Additional Financial Adviser, Ministry of Defence.

3. MINISTRY OF DEFENCE

1. Hindustan Aircraft (Private) Ltd.

Chairman

O.Pulla Reddi,ICS	Secretary, Ministry of Defence.

Directors

S. Jayasankar	Financial Adviser, Ministry of Defence.
Air Marshal S. Mukerjee.	Chief of the Air Staff.
J.R.D. Tata	Chairman, Tata Sons, Ltd.
K. Narayanswami	Director of Industries, Mysore

Managing Director

J.M. Srinagesh, ICS

2. Bharat Electronics (Private) Ltd.

Chairman

O.Pulla Reddi, ICS	Secretary, Ministry of Defence

Directors

Dr. K. S. Krishnan	Director, National Physical Lab.
Dr. M.B. Sarwate	Adviser, Wireless, Planning and Coordination, Ministry of Communication.
Maj.Gen.L.P. Sen	C.G.S. Army Hdqrs.
S. Jaysankar	Financial Adviser, Ministry of Defence.
P.N. Murthi	Electrical Adviser, Railway Board.
V.N. Chandararkar	Industrialist
S.N. Ramakrishna Rao	..
Major Gen. S. D. Verma	..

Managing Director

A.K. Ghosh, ICS

4. MINISTRY OF EDUCATION AND SCIENTIFIC RESEARCH

1. National Research Development Corporation.

Chairman

Kasturbhai Lalbai Millowner and Banker

Directors

Dr. M. S. Thacker	Secy. Department of Scientific Research.
G.G. Takle	Inspector General of Forests.
L.K. Jha, ICS	Special Secy., Ministry of Commerce and Industry.
Sir Shri Ram	Chairman, Delhi Cloth and Gen. Mills.
Vikram Ambalal Sarabhai	Industrialist
P.A. Narielwala	Director of Tatas.
Dharam Swarup Nakar	

5. MINISTRY OF IRRIGATION

1. National Projects Construction Corporation (Private) Ltd.

Chairman

T. Shivasankar, ICS Secretary, Ministry of Irrigation and Power.

Directors

Kanwar Sain	Chairman, C.W.I.N.C.
R. Narayanswamy	Joint Secretary, Ministry of Finance.
S. Venkataraman	Deputy Secy, Ministry of Irrigation & Power
N.P. Dikshit	Secy, P. W. D., M. Pradesh Govt.
Hari Krishna Niwas	Chief Engineer, Irrigation Bihar.
T.P. Kuttiammu	Chief Engineer, Kerala
D.N. Gupta	Chief Engineer, Jammu and Kashmir Govt.
Moti Ram	Chief Engineer, Rajasthan.

Managing Director

Radhakrishan Gupta (Retd. Chief Engineer, Punjab).

6. MINISTRY OF STEEL, MINES AND FUEL

1. Hindustan Steel (Private) Ltd.

Chairman

S. Bhoothalingam, I.C.S. Secy, Ministry of Steel.

Deputy Chairman

G. Pandey Ex-Chairman, Railway Board.

Directors

P.G. Bhagat	General Manager, Rourkella Steel Project.
N.C. Srivastava, ICS	General Manager, Bhilai
K.Sen, ICS	Gen. Manager, Durgapur Steel Project.
V. Narayanan	Jt. Secretary.
K.C. Mahindra	Chairman, Mahindra & Mahindra Ltd.
Maharaja of Parlakimedi.	..
Michael John.	..
Dr. A. Nagaraja Rao, Chief	Industrial Adviser.

2. National Coal Development Corporation (Private) Ltd.

Chairman

S.S. Khera, ICS, Secretary, Ministry of Mines and Fuel

Directors

S. Bhoothalingam, Secretary, Ministry of Iron and Steel

N.N. Wanchoo, ICS	Jt. Secy., Ministry of Defence
R.S. Kaiwar, ICS	Jt. Secy., Deptt. of Mines & Fuel
V. Narayanam	Jt. Secretary, Ministry of Finance
K.B. Mathur	Member, Railway Board
Arvind Mafatlal	Businessman
T.M.S. Mani	Mg. Director, Neyveli Lignite Corporation
Kanti Mehta	Trade Unionist

Managing Director

R.S. Krishnaswamy, ICS

3. Neyveli Lignite Corporation (Private) Ltd.

Chairman

M.K. Vellodi, ICS Cabinet Secretary

Directors

R.S. Kaiwar, ICS	Jt. Secretary, Deptt. of Mines & Fuel
R.S. Krishnaswamy ICS	Mg. Director, N.C.D. C.
V. Narayanan	Jt. Secretary, Ministry of Finance
Dr. A. Nagraja Rao	Chief Industrial Adviser
T.A. Varghese, ICS,	Secretary, Finance Deptt. Madras Govt.
T.K. Palaniappan ICS	Addl. Secy. Madras Govt.
C.G. Reddy	Retd. Secy, Madras Govt.
G.R. Damodaran	..
T.M.S. Mani	Mg. Director

4. Orissa Mining Corporation (Private) Ltd.

Chairman

K.N. Kaul	Jt. Secretary, Ministry of Commerce & Industry

Directors

D. Sandilya	Jt. Secretary, Ministry of Commerce, and Industry
B.C. Kallik	Industrial Adviser, Ministry of Steel, Mines and Fuel
R.G. Mundkur	Dy. Secy. Ministry of Finance
A.G. Menon, IAS	Secy. Industries and Mining, Orissa Govt.
R.A. Padhi, IAS	Secy. Revenue Dept. Orissa Govt.
Dr. H.B. Mahanty	Industrial and Technical Adviser, Orissa Govt.
R. Natarajau	.. ..
M. Ramakrishanayya I.A.S.	.. ..
K. S. Ramchandran I.A.S.	.. ..

7. MINISTRY OF TRANSPORT

1. Hindustan Shipyard (Private) Ltd.

Chairman

N.R. Pillai, ICS	Secy. Gen. Ministry of External Affairs.

Directors

Tulsidas Kilachand	Businessman
Lalchand Hirachand	M.P.
Shanti Kumar Norottam Morarjee	Industrialist
Commodore Daya Shankar	Indian Navy
S.D. Nargolwala, ICS	—Addl. Financial Adviser Min. of Defence
J.M. Charpentier	—Technical Director
T.M. Goculdas	—Businessman
M.V. Krishnarao	— .. ..
Michael John	—Labour Leader
Dr. Nagendra Singh ICS	—Jt. Secy, Ministry of Transport.
Shri R. Gupta, ICS	—Secy., Ministry of Transport

Managing Director

C.M. Reddy, IAS —Managing Director

2. Eastern Shipping Corporation (Private) Ltd.

Chairman

Dr. Nagendra Singh, Jt. Secy. Ministry of Transport.

Directors

S.D. Nargolwala	Addl. Financial Adviser, Ministry of Defence.
C.P. Srivastava, IAS	—Dy. Secy., Ministry of Transport.
P.R. Subramaniam	—Dy. Director-Gen. Shipping
R. Varadachari	.. ..
A.V. Venkateshwaram	.. ..

Managing Director

R. R. Saksena, I.C.S. .. ..

3. Western Shipping Corporation (P) Ltd.

Chairman

Nagendra Singh, ICS—Jt. Secy. Ministry of Transport.

Directors

K.B. Lal, ICS	Jt. Secy. Ministry of Commerce and Industry.
R.S. Kaiwar, ICS	Jt. Secy. Ministry of Steel, Mines and Fuel
R.R. Saksena	Managing Director, Eastern Shipping Corporation.
S.D. Nargolwala	Addl. Financial Adviser, Ministry of Defence
K.R. Subramaniam	—Dy. Director General (Shipping)

8. MINISTRY OF WORKS HOUSING AND SUPPLY

1. Ashoka Hotel (Private) Ltd.

Chairman

M.R. Sachdeva, ICS — Secy. Ministry of W.H. & Supply.

Directors

Maharajaya Rajendra Sinhji Deosinhji Jadeji	
S. Dutta, ICS	Foreign Secretary
S. Ranganathan, ICS	Secretary, Ministry of Commerce & Industry.
R.L. Gupta, ICS	Transport Secretary,
R.F. Issar, ICS	Jt. Secy. Ministry of W.H.S.
S. Ratnam	Secretary, Ministry of Finance
M.R. Dhawan	Businessman
K. L. Hathi	Businessman
Yuvarani Lakshmi Devi of Jammu and Kashmir	
M. P. Dubey	Housing Commissioner, Ministry of Works, Housing & Supply.

2. Hindustan Housing Factory (Private) Ltd.

Chairman

K.S. Krishanswamy—Jt. Secy. W.H. & S.

Directors

A.P.V. Krishnan	Dy. Financial Adviser, Ministry of Finance.
O.V. Ramadorai	Dy. Financial Adviser, Ministry of Finance

9. MINISTRY OF REHABILITATION

1. Rehabilitation Housing Corporation (Private) Ltd.

Chairman

Sir Shri Ram — Chairman, Delhi Cloth and General Mills Ltd.

Directors

K.J. George	Dy. Secy. Ministry of Rehabilitation
S.L. Verma,	Punjab National Bank
N.V. Venkatraman	Dty. Financial Adviser, Ministry of Finance

J.M. Rijhwani—Chief Engineer, C.P.W.D.

10. DEPARTMENT OF ATOMIC ENERGY

1. Indian Rare Earths (Private) Ltd.

Chairman

J.D. Chokshi — Director, Tata Sons Ltd.

Directors

Dr. H.J. Bhaba	Secretary, Department of Atomic Energy
Dr. K.S. Krishnan	Director, National Physical Laboratory.
M.S. Bhatnagar	Jt. Secretary Ministry of Finance.

P.S. Padmanabhan, IAS	—Secy. Ministry of Finance, Kerala Govt.
V.K. Menon	Jt. Secy. Ministry of Finance, Kerala Government.
N.E.S. Raghavachari, ICS	Chief Secy. Kerala Government.

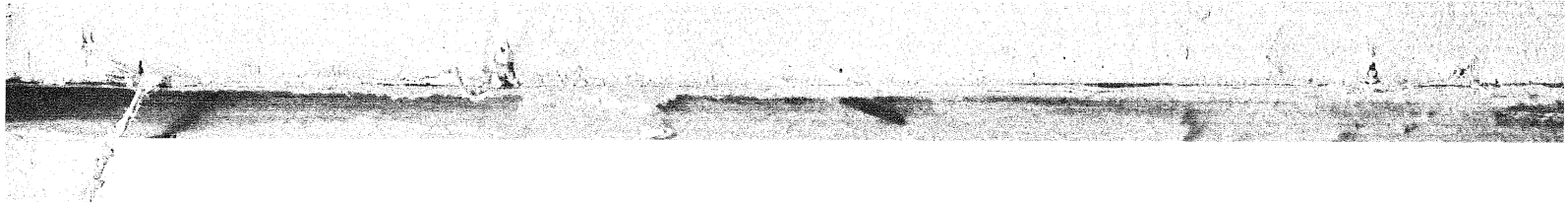
2. Travancore Minerals (Private) Ltd.

Chairman

Dr. John Mathai,	Ex-Director of Tata Sons Ltd.

Directors

M.S. Bhatnagar	Jt. Secy. Ministry of Finance
N.E.S. Raghavachari, ICS.	—Ch. Scy. Kerala Govt.
P.S. Padmanabhan, IAS	Secy. Ministry of Finance, Kerala Govt.
George Thomas, IAS	Secy. Government of Kerala.
Dr. H. J. Bhabha,	Secy. Deptt. of Atomic Energy
N. S. Shiva,	Dy. Secretary, Department of Atomic Energy.



SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

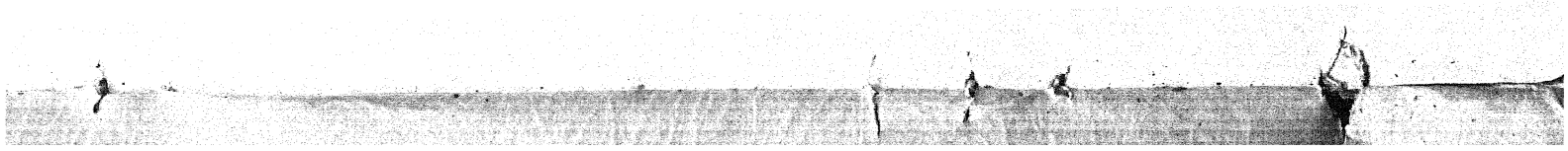
THE PUBLIC SECTOR IN INDIA

BY

P. S. LOKANATHAN

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Paper No. 47



THE PUBLIC SECTOR IN INDIA*

By
P.S. LOKANATHAN

There has been a great deal of emotional and doctrinal approach towards the question of public enterprises in India and the role of the public sector in the economic development of the country. Actually public and private enterprises are not to be regarded as two completely divided and water-tight compartments or sectors, but rather they together serve a common end. The distinction between the two is supposed to be based upon ideology. It is often pointed out in contrast that motivation in public and private enterprise is very different : that private enterprise is animated purely by considerations of profit, while social purpose and welfare are supposed to be the dominant motives of public enterprise. This distinction is at best partial and may be in some context highly misleading. It is not true that private enterprise can completely ignore social and democratic considerations. Indeed as time goes on, it is as much guided by broad social purpose as any national activity. On the other hand, public enterprise cannot altogether ignore considerations of profit nor can it fail to pay regard to questions of cost, efficiency and economy. Therefore, as time goes on, the difference between public and private enterprise ceases to have that clear-cut and fundamental distinction which is often sought to be made. In fact, in socialistic countries, public enterprises are definitely operated on the basis of maximum profits. They become the sources of finance for further economic development.

The fact that an enterprise is run by the State does not by itself provide any guarantee that labour or the public may not be exploited. In communist societies, what goes to labour, how much is set aside for further expansion, how much should go to consumption, is all determined by the State in which neither the worker nor the citizen has much say. It would, therefore, appear that the more significant question is whether the country's economic policies and methods are determined by democratic principles and institutions and not so much whether the emphasis is on the public or the private sector. The criticism again that the profit motive is an unsocial element is a half-truth. It is not profits as such that are wrong. It is the way in which profits are appropriated that is socially significant. After all, profits are, in a business, an indication and measure of efficiency ; they are also a reflection of the state of public demand.

The criticism usually levelled against public enterprises, that if they fail there is a waste of public resources whereas the incidence of loss in case of private enterprise is wholly on the entrepreneur, has not much validity

*The Indian Journal of Public Administration, Jan-Mar. 1957, Vol. III, No. 1.

in the context of planned economy. Both equally constitute a misuse of resources; for from the social standpoint there is no difference whether resources are wasted through failure of a public enterprise or through mismanagement of the private entrepreneur. In both cases, there is a social loss. Again, a very common argument against the expansion of the public sector is that public enterprises do not command sufficient technical or administrative personnel. This is not a valid argument, because where there is an absolute scarcity of administrative, technical and engineering personnel, it matters little whether it is public enterprise that lacks them or private enterprise. The problem can only be met (*a*) by the training of administrative, managerial and technical personnel and/or (*b*) by reducing the total magnitude of the development programme.

The doctrinaire approach to the question of the area of the public sector is not only unprofitable, but has not been the main element in the expansion of the public sector in the countries of the ECAFE region. With the possible exception of Burma and more recently of India, considerations of economic philosophy have not been the major determinant in the growth of the public sector. In many countries, like Indonesia, Ceylon, Pakistan, Thailand and Philippines, it is the lack of entrepreneurship and high costs of establishing new industries that have led to the intervention of the State in industrial development. Even in India where there has been socialist motivation to some extent, the present expansion of the public sector can be justified on entirely economic and rational grounds.

With the need for accelerated economic development in the country and the equally important need to secure rising living standards, the expansion of the public sector in the heavy metallurgical, electrical and chemical industries is not only justified, but is indispensable. There is little hope of the private sector entering these fields which require the locking up of enormous liquid resources and large scale personnel management altogether beyond the capacity of the private sector as it obtains in the ECAFE region. It is true that one of the reasons for India's expansion of the public sector is the desire to reduce the concentration of economic power which would become more serious if the private sector were permitted to enter these new fields. But even if this motive were absent, there could be no hope of the private sector fulfilling the additional responsibilities.

Even in the most advanced countries like the U.S.A., the amount of public investment has been increasing. From the point of view of the development of private enterprise it would appear that there should be the minimum of public enterprise and the maximum development of economic and social overheads. Indeed, one main reason why India's economic development has been greatly retarded in the past was the lack of what may be called social and economic overheads. It is only when large public investments in transport, communications, power, education and research have taken place that the scope for private enterprise will become larger. The fact that today, in spite of the expansion of public sector, private enterprise in India is not only buoyant but is optimistic of the future provides ample evidence in support of the thesis that in a properly planned economy not only is there no conflict of the type imagined in a purely doctrinaire approach but the expansion of the private sector is itself conditional on an appropriate expansion of the public sector.

II

The actual problems of management and operation of the public enterprises, are in no way different from those which confront the private sector. There is the same hard core of practical problems in all enterprises whether they are private, public or mixed. There is the same question of manage-

ment of personnel, labour relations, of cost, efficiency, internal organisation, delegation of authority, price policy, etc. It would hardly be possible to deal with all these matters in this short sketch, but a few points may be selected for illustration.

Taking up first the question of autonomy of public enterprises, the real problem is how to secure a balance between public accountability on the one hand, and on the other, the flexibility of management needed for dealing in a responsible way with changing situations which require quick decision. In some countries, the public enterprises were permitted to have excessive autonomy ; they almost tended to disregard the responsibility to the public in their operation and management. Fortunately, such danger is now past in India as well as elsewhere. There is universal recognition that parliamentary control is essential and justified ; only it should not be excessive or detailed. Parliamentary control should not lead to either too much delay or create a sense of timidity on the part of managers of public enterprises. The forms of organisation of public enterprises may vary, as in India. We have examples of public corporations, private companies and departmental management. Whatever be the form of organisation, the main point is that public enterprises should regard themselves as organisations whose objective is to meet the public need most economically and efficiently. As regards administrative relationship, while the Minister must necessarily have the ultimate say in regard to policy, the Board of Directors should have a voice in its formulation and a fair scope for manoeuvreability in its execution, for situations change and a mechanical application of a stated policy may be contrary both to the public interest and the original intentions of the framers of policy. It is ultimately a question of trust which has to grow (as part of the national character) and cannot be assumed or provided for in an administrative way.

In India, the Chairman of the Board of Directors of public enterprises and the majority of the Directors are officials. This by itself is a sound policy, since the public enterprises belong to the State, and the policy of the State can best be interpreted by its officials. On the other hand, there is the danger that the official Chairman of the Board of Directors may either find little time to guide the Board of management or might find it difficult to wear a double hat, one as representative of the Government and the other as representative of business. It is the practice in Indian public enterprises to have a few non-officials on the Board. Although Mr. Appleby in his report has condemned this practice, there is no gainsaying the fact that the presence of non-officials is of great benefit both to the particular enterprise and to the public. It is democratic in the sense of providing a check on the exercise of power, and serves in a broad way much the same ultimate purpose as the presence of an official in a private Board of Directors.

One of the problems connected with the management of public enterprises is the danger of civil service mentality prevailing in management of business concerns. There is also the further question as to whether civil servants are best suited for managing business enterprises. Here one has got to take a balanced view of the matter. There are many problems which personnel with the civil service training are specially qualified and competent to handle. It is also a mistake to think that the civil servants cannot take quick decisions. (The fact is that in private business also there have been many instances of dilatory decision.) Nor is it true that public enterprises cannot have a system of promotion by merit. Actually Government is undertaking certain measures which would eliminate the difficulties and disadvantages of routine governmental management.) A Management Pool has been established and its service conditions are somewhat different from those obtaining in Government service. It is often stated again as criticism of public enterprises that they do not have for their executive posts men of high technical competence and that they are unwilling or

unable to recruit from private businessmen for executive posts. Further, at the highest level of executive management, a technical man is not necessarily an ideal person. In smaller businesses, a technical man could be more useful as head, but where businesses are large, specialist with technical knowledge and experience would not necessarily be more valuable. As regards recruiting from private business, the difficulty is one of securing the right type. It would be wrong to assume that men in private business would necessarily be ideally suited to fill executive positions in big public enterprises. What is really needed is that the methods of recruitment and promotion should be less rigid and that there should be greater flexibility in procedures in regard to appointments and promotions and that recruitments should be made from as wide an area as possible.

III

Public enterprises and private enterprises cannot be compared except in terms of the public policy to be observed. In many instances, public enterprises may by their very nature be monopolistic. They enjoy certain advantages which are denied to private enterprises. In the context of planned economy, it is possible that some discrimination in favour of public enterprises in respect of supply of basic materials, power, transport, etc., may be justified, but there should at least be one basic requirement and that is when they enjoy subsidies either veiled or concealed or are given any exemption, all these advantages and benefits should be fully brought to light. A comparison, therefore, between public and private enterprise should be on an equal basis. In so far as the Second Five Year Plan provides for the functioning of the private sector it is only proper that adequate facilities should be granted to private enterprises and that no unnecessary discrimination or any possible hindrances should be permitted.

The mere fact that public enterprise meets a difinite end cannot by itself justify the expansion of the public sector. The more relevant criterion is to what extent can the public sector meet the need and whether, for the same cost, other investments could not produce better results. The investment pattern should conform to the criterion of the most efficient use of resources. It is, therefore, essential to undertake painstaking research to work out valid formulae for evaluating the operations of public enterprises.

Another point to be considered in respect of the operations of the public enterprises is the question of price policy. What prices should be charged for the products of public enterprises? This would depend upon objectives of social policy. While in some cases, there may be justification for selling products, without making profit, (*e.g.* the sale of fertilizers to agriculturists), it should be the principle of public enterprises that all costs, including depreciation, replacement, etc., must be properly appraised and the degree and nature of loss fully known and booked in the public accounts. As a matter of fact, there is justification for charging more than the cost, since the profits of public enterprises might well become—in fact, are in socialist economies, as already pointed out—an important source of finance. Often public enterprises are given consolidated subsidies in the form of lower prices of the materials which they buy. This again, whether it is right or wrong, should be brought out clearly and not permitted to be used surreptitiously. It is necessary for the country to know at what cost public enterprises are functioning. Sometimes, there is a tendency for public enterprises to give away in the form of higher wages what can really go to the wider public either in terms of lower prices or greater economy in the use of public funds.

The choice between public and private enterprise, or in other words the area demarcating the public sector from the private sector, is ultimately a matter of public policy. But in deciding upon it, the main issue to be

considered is what would produce the best social results. There is always the danger of public enterprises not working satisfactorily on account of the rigidities and other disadvantages inherent in their operation. There is also another major factor in the determination of the public sector. Since the managers of publicly operated enterprises do not bear the risks, there is the danger of inefficiency and possibility of waste. Another set of problems which must be considered in defining the area of the public sector is the whole question of incentives to work. How far can people be inspired to do the best work under non-monetary incentives? This opens out what might possibly become one of the most profitable fields of research in the Indian economy.

In India unfortunately, there is too much of a partisan attitude both for and against private enterprise. The fact that some entrepreneurs may not have done well is no reason why there should be a wholesale condemnation of the private sector. An illustration of this unsocial way of thinking is provided by the reported 'expert' opposition to credit expansion at a meeting with the Finance Minister on the ground that it would benefit banks, which are at present privately owned and managed. Such a narrow approach in the public or in the private sector, is both unhelpful and self-defeating. It poses a conflict that does not really exist. It is a type of argument, which pressed to a *reductio ad absurdum*, would lead either to complete inactivity or absolute regimentation, for all economic decisions have intended or unintended distributive consequences. Public decisions would be wholly frustrated if based on any whimsical reading of minor currents of social change or the distributive process.

Our eye must be focussed on the direction of the main broad current. Is the economy posed in the right direction? Is it moving on as fast and as desirable a rate as is practicable under the circumstances? Viewed in the perspective of such a philosophy, the present controversy of the sectors might lose much of its sharpness, and, in fact, may take on a creative aspect.

For the development of such an attitude, there must be a total abandonment of the doctrinaire approach with which we are getting plagued. In social affairs, what works is good; what fails has to be forsaken. In economic, as in political affairs, India has to evolve a non-partisan approach. Each sector of the economy must determine the spheres in which it can deliver the goods and rapidly enough, for the country will not wait and does not really care for the triumph of capitalism or socialism.

Further, in respect of private enterprise, it may be said that the public attitude and hence the policy of Government (for this is a democratic country) will be largely determined by what Lord Keynes—by no means a socialist—called the level of the stakes. If profits made by private enterprise are genuinely competitive and broadly reasonable in the public view, there is no reason why it cannot continue to fulfil its legitimate and essential role.

SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

THE ROLE OF PRIVATE SECTOR IN INDIAN ECONOMY

BY

H. M. PATEL

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Paper No. 48

THE ROLE OF PRIVATE SECTOR IN INDIAN ECONOMY*

By
H. M. PATEL

It is not often that a civil servant like myself has to stand before such a distinguished gathering of university teachers and students to speak on an important but controversial issue of public policy. Controversy, however, has so clouded the issues involved that it seemed to be desirable to take this opportunity you have offered to me to consider this matter afresh and as dispassionately as possible. In a way, I was also happy to be given an opportunity of getting away from the day-to-day preoccupations of official life in order to have a closer and comprehensive look at some of the larger issues of economic policy in the country.

Things in India have moved at breakneck speed since Independence in the economic as in other spheres of life. The brief but disastrous experiment with decontrol in 1947, the reimposition of controls in 1948, the devaluation of the rupee in 1949, the acute shortages of food grains and essential raw materials in 1950 and 1951 at the time of the Korean boom, the formulation of the First Plan in 1952, the preoccupations with deflation in 1953, the virtual elimination of controls in 1954-55 and the adoption of the Second Plan in 1956—these and other events of great consequence have followed each other in quick succession and have been interspersed by the adoption of important legislation covering land reforms, company law, development and regulation of industries, labour relations and a host of other things. In the meanwhile, important pronouncements about economic policy have been made by the adoption of the two Industrial Policy Resolutions—first in 1948 and then in 1956—as also by the adoption by Parliament of the socialist pattern of society as the objective of economic policy.

It is not easy to see the sum-total of all these pronouncements and policies and measures; but it is important, nonetheless, to look at the totality of the measures adopted in the economic field, at the general pattern in which economic policy is being arranged, at the sense of direction which it is acquiring—and to assess whether it contains within itself the momentum to carry the Indian economy most speedily to progressively higher levels of efficiency and production.

It is for this reason that I have chosen as my subject such a large topic as the role of the private sector in Indian economy. Perhaps it would have been better to define the subject as the role of private initiative and enterprise in the Indian economy—for, what is worthwhile and indispensable in a democratic society is the initiative and enterprise of individual citizens rather than the form of organisation, private or public, through which it is mobilized.

* The Indian Journal of Public Administration, July-Sept. 1957, Vol. III, No. 3.

It would be agreed on all sides that private enterprise and initiative have a valuable part to play in a democratic society; it would, I believe, be equally well agreed that in a poor country which is striving to make up a terrific leeway in economic progress against heavy odds there is need for State initiative, State direction and State regulation in the general interest. But can it be that in providing for the legitimate functions of the State in the economic sphere we have gone too far and created conditions in which private initiative and private enterprise cannot function effectively and in the best interests of the society? This is a question which needs to be raised and answered, not the least because it is one which has aroused a fair degree of controversy both in India and among our friends and well-wishers abroad.

Controversies about the respective roles of the public and the private sectors will, I fear, continue unabated for a very long time to come—at least as long as human passions and preconceptions refuse to yield to the verdict of facts. But, in speaking to a gathering of students and teachers, I am emboldened to attempt an answer—or rather, to draw attention to a few relevant facts and considerations in the hope that they would help you to make a judgment for yourself.

II

What then is the role of the private sector in Indian economy? Let us begin by taking a look at the part that the private sector is playing at present in the totality of economic activity in the country. Most of you must be familiar with the estimates of national income put out, from time to time, by the Central Statistical Organisation. These estimates bring out a remarkable fact, viz., that the share of the Government in the generation of the total national product in India is hardly of the order of 8 per cent of the total. As much as 92 per cent of the total incomes in the country are generated by the private sector.

In terms of the total expenditure in the country, the share of the Government is slightly higher—of the order of 9 per cent in 1953-54 or, say, roughly 10 per cent of the total now. All the expenditure of the Government, including the expenditure of Government-owned enterprises, comes to a bare one-tenth of the total—the rest is accounted for by the private sector.

Even by comparison with avowedly free enterprise countries, such as the United States of America, the share of the Government in total economic activity in India is among the lowest in the world. In the United States, for example, the total Government expenditure in 1955 amounted to some 76 billion dollars out of a total gross national product of 387 billion dollars—or some 20 per cent of the total. In other countries such as the United Kingdom or France, the share of the State in total economic activity is even higher.

The private sector in India thus clearly plays a much larger role relatively to the public sector than in most modern communities and it will be a long time before the role of the State in India approaches anywhere near the range and scope of its activities in most civilized communities. And this is hardly surprising when we recall that for generations under the British rule, the State confined its activities to the minimum requirements of law and order. Economic matters were left, by and large, to be governed by a policy of laissez-faire. But whatever the reason, it is, I think, important to bear in mind the broad fact I have just mentioned in any judgment about the proper balance between the private and the public sector in India.

There is another important fact which must also be borne in mind in judging the role of the private sector in India, viz. that by far the largest part of the private sector in India consists of small peasants and craftsmen, of small traders and professionals.

Much of the controversy about the role of the private sector in India centres round the role of the organised sector of manufacturing industries.

But this sector—or what we might call the Private sector with a capital P—forms only a small part of the economy and it would be a mistake to assess the impact of our economic policy on private initiative and enterprise in India with reference solely to organised industries which account only for about 8 per cent of the total production or incomes in the country. It is only proper, therefore, to emphasise a fact which tends to be overlooked, namely that a large part of the economic activity of the State in India is devoted to creation of conditions under which genuine enterprise and initiative may develop among the large majority of citizens in this country—among peasants and artisans of all kinds.

For generations, life in Indian villages has stood still. There has been very little improvement in the productivity of land and of the simple handicrafts which provide but a miserable pittance to millions of our fellow-citizens. Unemployment, under-employment and landless labourers have grown from decade to decade and there has been hardly any improvement in the standards of health and education in rural India. It is to the revitalisation of rural India that the bulk of the energy and resources of the State in recent years have been bent—and I submit that the development of initiative and enterprise among the bulk of our people would remain but a dream in the absence of State initiative and guidance in a variety of ways.

I do not wish to narrate to you all that the State is doing in the field of health, education, irrigation, agricultural extension, rural credit and co-operation, protection of and encouragement to small-scale industries and so on. But it is important to stress the fact that for the large majority of our citizens, the conditions essential to evoke in them a spirit of enterprise and initiative are being created for the first time in many generations by the active efforts of the State.

In this effort, the co-operation of the people is being sought and encouraged at every stage as is evidenced by the faith we have put in that remarkable movement for Community Development and National Extension. We are not preparing for any collectivist regime in our countryside but are endeavouring instead to build a class of independent peasants and craftsmen, reasonably secure against the depredations of both man and nature, with a hope for the future and a faith in themselves and in their endeavours. This large fact should not be forgotten in making any overall assessment of economic policy in India in relation to the scope for private initiative and enterprise.

I hasten to add that I refer to the policy in regard to agriculture and small-scale industries not by way of any apology for the policy in regard to the organised private sector. My aim has only been to provide a proper perspective to this question of the role of the private sector in India. Nor is it my intention to suggest that policies in regard to the organised sector of industry and commerce are any the less important than policies in other fields.

III

It is, I think, generally agreed now that rapid industrialisation is vital to India, that in the years to come, the organised sector of industries must grow considerably, both absolutely and in relation to the rest of the economy. It is, therefore, of the utmost importance that the policies we adopt in this field now in the early years, are such as to provide for the fastest rate of industrialisation that the country can achieve.

There are, I think, four different questions that we need to ask in order to determine whether the present policy towards organised industries in India is unduly restrictive of private initiative and enterprise or not: (1) Is there genuine reason to apprehend arbitrary nationalisation as far as organised industries are concerned? (2) Is the scope for expansion of private industries unduly restricted? (3) Are there too many restrictions in the way of the day-to-day management of private industries? And finally,

(4) is the State doing enough by way of positive assistance to encourage the growth of private industry?

I shall begin with the last of the questions I have just posed. The extent of Government support and assistance to organised private industry is, I am afraid, not fully appreciated in the country. Nor is it appreciated that so many of the so-called restraints on private industries are only devices for ensuring a balanced pattern of assistance to different sectors of private industry.

Take the question of industrial finance, for example. Apart from setting up a large number of financial institutions such as the State Finance Corporations, the Industrial Finance Corporation and the I.C.I.C.I. (Industrial Credit and Investment Corporation of India) the State has not hesitated to advance money in appropriate cases directly to private industrial concerns as, for instance, to the Atul Chemical Products. The significance of the financial assistance rendered by the State can be seen from the fact that over the First Plan period, a sum of Rs. 44 crores was made available by the State to private organised industries in different ways—a sum which was, in fact, somewhat larger than the total amount realised by private industry from the capital market through new issues.

The estimate of State assistance to organised industry I have just quoted is of the Planning Commission. The Report of the World Bank Mission which visited India last year puts the total of State assistance to private industry over the First Plan period at a somewhat larger figure of Rs. 55 crores. The Second Plan provides for an even larger sum of State assistance to private industry. And in the recent agreement signed with the United States for the purchase of surplus agricultural commodities we have explicitly provided that a part of the rupee proceeds of these purchases shall be utilised for assisting private industry. The sum to be so provided amounts to Rs. 26 crores.

Apart from assisting private industry from its own resources, Government has also used its good offices in obtaining loans for it from the World Bank. All such loans are guaranteed by the Government. We have also agreed to be a member of the newly-created International Finance Corporation which is an affiliate of the World Bank in the hope that this would facilitate a larger flow of external finance to private industry.

But perhaps the most substantial financial assistance given by the Government to private industry is in terms of a large number of tax-concessions which are given at present to industry for development purposes. Apart from the development rebate and the additional depreciation allowance and allowance for scientific research, all new manufacturing companies enjoy a tax holiday for five years, they being not subject to tax on profits up to six per cent of the capital employed. Dividends declared by such companies out of this exempted portion of income are also tax-free in the hands of shareholders, whether resident or non-resident. In several cases, dividends earned by a company on investments in other companies are tax-exempt.

I wonder if the sizeable investment undertaken by private industry in recent years out of their own internal resources would have been possible without the generous tax-rebates and tax-exemptions granted by the Government and I venture to think that not a small part of the internal resources of companies consists of the tax saved as a result of the concessions allowed by the Government for development.

Apart from financial assistance, private industry enjoys protection from foreign competition in many ways and enjoys the benefit of technical and other advice from Government financed institutions. Let us not forget that protection to Indian industry implies some cost to the society at large in the short-run. And it is only natural that, in turn, society claims the right to demand that the protected units make as rapid a progress as possible. And this calls for a measure of careful planning by the Government. Very often, new industries can come into existence and develop only if they are

allowed to import processed, or semi-processed components on a considerable scale; it becomes necessary, therefore, for the State to insist that more and more of the components would be produced in India as time goes on. Very often, it becomes necessary to limit the establishment of new units—in the interest of the units already established behind the walls of protection so that the latter may get on their feet quickly.

Some of the restraints, again, on one part of private industry have to be imposed in the interest of some other sector of private industry. A large part of the scrutiny exercised in the matter of licensing new units or additional capacity under the Industries (Development and Regulation) Act of 1951 is exercised in this spirit of safeguarding the interests of organised industry as a whole against the wastefulness of unregulated competition.

I do not wish to suggest that assistance in the promotion of industries is a one-way traffic—that all the assisting is done by the State to the private industry and that the latter has been a passive partner. Indeed, private industry itself has played a valuable part in helping in the formulation of the overall plan of industrial development and in the preparation of blue-prints for some of the industrial enterprises in the public sector. Many of the distinguished industrialists in the country and many technical experts associated with private industry have sat in committees and meetings and have laboured hard in the formulation of industrial projects and policies of concern to both the public and the private sector.

When the Prime Minister says that there is no private sector and no public sector but only one national sector, it is surely to this interchange of technical know-how and expertise among all sections of the people that he is referring. And, despite all the red herrings that tend to be drawn across the trail, in an attempt to prove some charge of so-called governmental or private intransigence, I think we should not allow ourselves to forget that, in a considerable measure, this spirit of working in harmony for the most rapid development of industries in the country is already a reality.

IV

Let me turn now to the other questions I raised some time back—first of all, whether there is any warrant for private industry in India to fear arbitrary nationalisation. There can be little doubt that a man under the sentence of death does not put forth the best of his ability or talent. But I think it is clear that not only has no such sentence been pronounced but also that the temptation to nationalise existing industries for the sake of nationalisation has been stoutly resisted in India. This is a matter in which assurances have been repeatedly given by the highest quarters and I can do no better than quote the Prime Minister:

> "I have no shadow of doubt that, if we say 'lop off the private sector' we cannot replace it adequately. We have not got the resources to replace it, and the result would be that our productive apparatus will suffer. And why should we do it?
>
> I don't understand. We have our industries, there is a vast sector, and we have to work it. Let the State go on building up its plants and industries as far as its resources permit. Why should we fritter away our energy in pushing out somebody who is doing it in the private sector? There is no reason except that the private sector might build up monopoly, might be building economic power to come in the way of our growth. I can understand 'prevent that, control that, plan for that'; but when there is such a vast field to cover, it is foolish to take charge of the whole field when you are totally incapable of using that huge area yourself. Therefore, you must not only permit the private sector, but I say, encourage it in its own field."

I have no doubt that responsible sections of the private sector in India have no misgivings on this question of nationalisation. Government record speaks for itself. The special reasons which led to the two important acts of

nationalisation—of the Imperial Bank and of Life Insurance—are, I think, now better known and more fully appreciated. The nationalisation of the Imperial Bank was prompted solely by the desire to fill a lacuna in the structure of rural credit to enable the State to undertake tasks which a private commercial bank could not be expected to undertake. As the Chairman of the new Life Insurance Corporation, I am perhaps not the best witness in testifying to the soundness of the nationalisation of Life Insurance in the country. But I am confident that time will show that the step was necessary, in the interest of the average man and the country, and that it has not and would in no way hamper the adequate supply of insurance funds for the growth of private industry. I think I am also right in asserting that much of the misgivings about the Constitutional amendment which we adopted in 1955 has also disappeared by now. In effect, this amendment removed questions of compensation for nationalisation from the jurisdiction of the courts. The principle of recognising the Parliament as the supreme authority in determining compensation is an established one in most countries including the United Kingdom, and in accepting the same principle for India we did little more than prevent excessive litigation in courts in support of dubious claims contrary to the wishes of the electorate. Any misgivings that the Constitutional amendment might be used as an instrument of confiscation have been set firmly at rest by the compensation actually provided for in the case of the Imperial Bank and the Life Insurance companies.

So much for the future of private industrial units already in existence What about the scope for future expansion of private industry? A few industrial undertakings were completed by the State in the First Plan period, notably the Sindri Fertilizer Factory and the Chittaranjan Locomotive Works. Some of the industrial enterprises owned and operated by the old princely States were also inherited by the present Government of India. But, by and large, the State had not entered the industrial field to any significant extent till recently.

In the Second Plan period, however, the State proposes to invest some Rs. 600-700 crores in large-scale industries and has definitely taken upon itself the direct responsibility for setting up a number of industrial enterprises. There has thus been a clear shift in emphasis in favour of a more active participation by the State in industrial development.

But to say that the State has set out to participate more actively in industrial development is not the same thing as saying that the private sector is being circumscribed—much less unduly circumscribed—in the matter of industrial development. The Second Five Year Plan provides for a much larger investment by private organised industry also—some Rs. 600 to 700 crores of new investment against some Rs. 250 crores in the First Plan period.

The substantially larger participation of the State in industrial development is only a reflection of the fact that we have now set our sights rather high in the matter of industrial development and that we have given high priority to the development of basic capital-goods industries. These basic industries require large amounts of capital and entail a high degree of risk and it is doubtful if their development on the scale required could have even been attempted without the active participation of the State.

I am, for the moment, ignoring the important and vital consideration of the speed with which it is essential that these basic industries should be developed, for it is quite obvious that private enterprise could not even have attempted to undertake all the development in this sector that is projected during the Second Plan period. In almost all cases, the establishment of heavy industries—steel plants, electrical equipment and so on—requires the technical co-operation and financial assistance of foreign investors and foreign governments.

It is again doubtful if arrangements for foreign assistance and co-operation on an extensive scale—and for long-term projects with a considerable element of risk—could have been made by private entrepreneurs alone, acting on their own initiative and on the basis of their own goodwill.

I have already indicated earlier that the Government has used its good offices for obtaining external finance for private industry. In the Second Plan also, and even in the field of basic industry such as steel, the private sector is being encouraged and assisted in implementing schemes of substantial expansion. When all these things are taken into account, it is difficult to see the justification for contending that the expansion of private industry has been or will be held back artificially in the Second Five Year Plan. Indeed, the early development of these basic industries is already resulting in the development of a number of ancillary industries by private enterprise, which would otherwise have not been possible.

V

In a sense, I think, we also get a somewhat wrong picture of the relative roles of the public and the private sectors in industrial development in the Second Plan by looking merely at the relative figures of proposed investment. The public sector has chosen for itself deliberately the difficult field of heavy industries—industries where investment is large in relation to output. The investment of the private sector, on the other hand, will be spread over the whole range of industries with the result that, with roughly the same total investment, the private sector would account for a much larger share of the additional output. I doubt if the output of all the industrial enterprises in the public sector at the end of the Second Plan will reach even 10 per cent of the total output of organised industries in the country. This rough order of magnitude must be borne in mind when we consider the relative ability of the two sectors to shoulder effectively the responsibilities they have assumed.

If we look beyond the Second Five Year Plan, the broad outline of the role of the public and private sectors in industrial development are defined in the Industrial Policy Resolution of 1956. This Resolution clearly reiterates the intention of the Government to play a more active part in industrial development, particularly in the sector of basic and heavy industries. But at the same time the 1956 Resolution provides for a great deal of flexibility in the application of the broad principles laid down therein.

Only four industries or public utilities are specified as exclusively within the jurisdiction of the Central Government, that is railways and air transport, arms and ammunition and atomic energy. I do not think anyone would seriously quarrel with this stipulation. The remaining thirteen industries in the first group, which includes iron and steel, mineral oil, coal, shipbuilding etc. are defined as industries where all new units are to be established by the State.

But even in this field, the expansion of existing units is not ruled out; nor is the co-operation and participation of the private sector to be shunned when it is in national interest. That this flexibility is intended to be a real thing is clear from the recent agreement with the Assam Oil Company and from the sizeable expansion plans of the two private steel plants in the country.

The Industrial Policy Resolution also defines a second group of twelve industrial industries including aluminium, fertilizers, synthetic rubber etc., in which the State will increasingly establish new undertakings. But this field will also be open to the private sector as indeed the vast field outside the two groups of industries listed in the Resolution. The Resolution states explicitly that the division of industries into separate categories does not imply that they are being placed in water-tight compartments. It is recognised that there will not only be an area of overlapping but also a great deal of dovetailing between industries in the two sectors.

It is, of course, possible to argue that as long as there is any field in which the right to establish new units is reserved, by and large, by the State, there is a corresponding infringement of the freedom of the private sector to develop. I can only say that this is a view which is clearly unacceptable to the Government as well as to the large majority of the people. There is no need to deny that there are wider considerations of national interest which require that the ownership and control of a few specified industries must rest, by and large, with the public sector.

If you examine the seventeen industries listed in Schedule A in the Resolution, you will find that they are all carefully chosen and that there are good reasons why the future development of these industries should be in the public sector to the extent possible. I have already referred to air transport, railways, arms and ammunition and atomic energy where the reasons for a State monopoly are obvious enough. Several others such as the generation and distribution of electricity, telephones, aircraft, shipbuilding and minerals required for Atomic energy are also of a non-controversial nature inasmuch as they are already largely in the public sector or are providing exclusively for the requirements of the public sector. That leaves broadly two other fields which are reserved largely for the public sector, viz., the development and exploitation of the country's mineral wealth on the one hand and the development of iron and steel and the heavy machine-building industries on the other.

India is not so very rich in mineral wealth in relation to her requirements and there is, therefore, urgent need for ensuring that the exploitation of natural wealth is not guided by short-term considerations of private profit alone. The treasures of the earth have also been a great bone of contention among nations especially when their exploitation is left solely to rival international cartels. As for iron and steel and the heavy machine-building industries, I have already indicated the reasons why for many years to come the resources required for their development could in any case come largely only from the public sector. It is, of course, possible to hold a different view in specified cases; but, by and large, the division of responsibility defined in the Industrial Policy Resolution stands to reason and, in any case, it leaves sufficient room for flexibility to accommodate individual cases.

VI

I have not yet dealt with one aspect of my subject this evening. What about the various measures of regulation adopted by the Government? Do they not constitute a considerable interference in the day-to-day affairs of private industry? This is a rather large subject inasmuch as one has to consider a great many items of recent legislation from a number of standpoints in order to answer the question satisfactorily.

I will only make one rather obvious but often overlooked point that a country which wishes to improve its standard of living quickly and which has unquestionably limited resources of men, money and material, must necessarily ensure that no avoidable waste takes place in the utilisation of these resources: and if there is one thing about which there is no doubt at all it is that unrestricted competition, or laissez-faire in full, is the most wasteful of all forms of economic organisation. You have in it invariably first to incur a lot of expenditure which becomes infructuous as the forces of competition lead to the elimination of the less competent or the less efficient firms.

This trial and error method of economic development is not only the negation of all planning, but is one which it would be suicidal for a country like ours, which has fallen behind-hand in the economic race, to afford. That is why, even the private enterprise is not only prepared for but accepts the need for a measure of planning and regulation; but it has a tendency to stop short in its acceptance of regulation at a point where at the least it becomes arguable that the general interest is not fully safeguarded without further regulation.

But I think I am right in saying that a large part of the regulatory measures adopted by the Government are not only acceptable to most businessmen in the country but are also recognised by them as being in their own general interest as well as in the interest of the country. I venture to think that the Industries (Development and Regulation) Act, the control over capital issues and over exports and imports as well as the selective control exercised by the Reserve Bank over bank credit, are all examples of government regulation which have, by and large, a wide measure of support from private industry itself. The air of controversy seems to surround only two measures in the main—the new company law and the taxation of companies.

The new company law undoubtedly gives a large number of discretionary powers to the Government. But it has been repeatedly made clear that these powers will be used most carefully and consistent with the important role assigned to the private sector.

It has, I think, been a common experience in India in recent years to find that the spate of criticism which accompanies almost every new measure subsides as time goes on and as it becomes apparent that the fears expressed earlier are belied in the actual administration of the measure. The company law seeks to perform the legitimate function of safeguarding the rights of shareholders, or preventing excessive concentration of powers and of strengthening the confidence of the people in the corporate sector by reducing the danger of mismanagement and fraud.

Let us not forget that the industrial development of India hitherto has been on the basis of a great deal of concentration of power in the hands of a few people not all of whom command a great deal of respect from the people. In these circumstances, the powers acquired under the new company law can serve to create a new confidence in the corporate sector at large. It must be admitted, of course, that some of the provisions might prove to be unhelpful or impracticable in their application, and these, no doubt, will be suitably amended when the law comes to be reviewed. But on the whole, I have little doubt that in course of time, this piece of legislation will also come to be regarded as a help rather than a hindrance to the growth of private industry.

The question of taxation of companies, I am afraid, is a very tricky one. I suppose none of us would like to be taxed really, and it is quite a hopeless task to try and persuade anyone that he is not overtaxed. I have already referred to the large variety of tax concessions that have been granted to private industry for development and I do not wish to enter here into the merits and demerits of various tax measures such as the capital gains tax or of the new provision for compulsory deposit of a part of the reserves of companies. The question I wish to raise is a more general one: Can it be argued that taking the overall impact of Government's fiscal policy into account, the State is appropriating too large a share of the available savings for itself, leaving too little for the private sector? We may argue a great deal about the rights and wrongs of a particular tax, and certainly, there is scope for devising more rational system of taxation. But the more important question is that of the share of the State in the total savings of the community and the extent to which it uses the powers to tax to raise this share.

Here again, the real situation is one which should be disheartening to the public rather than the private sector. The share of taxation in national income in India is among the lowest in the world—some 7 to 8 per cent of national income as against 20 to 30 per cent of national income in many countries. The public sector in India has hardly any savings it can call its own—the revenue of the Government is just about enough for financing the current outlay of the State so that little or no savings are left for financing the investment in the public sector. For financing its investment, the public sector has to rely largely on borrowing from the people—a task in which it has to compete in the open market with other claimants for the savings of the people. Admittedly, the Government has recourse to deficit-financing to some extent; but here again, it should not be forgotten that the instrument

of deficit-financing is available to the private sector also and is in fact being utilised by the private sector to a considerable extent. I am referring, of course, to the creation of money implicit in the extension of bank credit to the private sector.

All in all, the public sector in India has hardly any special advantage created for itself vis-a-vis the private industrial sector in the apportionment of the savings of the people. When we judge whether the burden of taxation on industry is too high and whether the State is starving private industry of funds in order to push ahead with its own development plans, this overall fact should not be lost sight of.

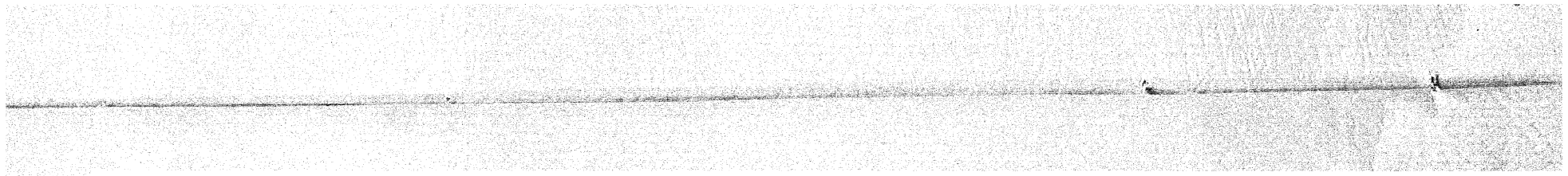
VII

I am afraid, I have taken you on a rather long and tedious excursion into the vast sphere of economic policy in relation to the private sector. My purpose in doing so has not been to assert that everything is well with economic policy in the country. Nor do I wish to suggest that in many individual or specific cases the private sector may not have a legitimate grievance of undue red tape and bureaucratic interference. I do feel, however, that a great many discussions of the role assigned to the private sector in India tend to neglect various important aspects of the problem and to hang a multitude of sins on one or two rather minior points.

I think it is important, in this crucial period of our national development that, we should avoid unfair arguments, misstatements and exaggeration in all controversies. Nothing is likely to corrode the nation's sense of solidarity more than a vociferous and acrimonious debate about the private sector and the public sector.

We have set before ourselves the ideal of a peaceful approach to all problems—the ideal of economic progress without the cacophony of class warfare and mass hysteria. But the echoes of class warfare would not be far if we allow ourselves to drift into a bitter debate among the exponents of the private sector and the advocates of the public sector. There is room enough for both and the broad outlines of policy we have adopted give ample scope for each to live and prosper in mutual harmony. It is in the preservation of this harmony—in the inculcation of the spirit that there is no private sector and no public sector but only one national sector—that the hope for most rapid industrialisation and prosperous India lies. And where there is harmony, there is always room for adjustments and accommodation in mutual interest.

New India Press, New Delhi.



SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

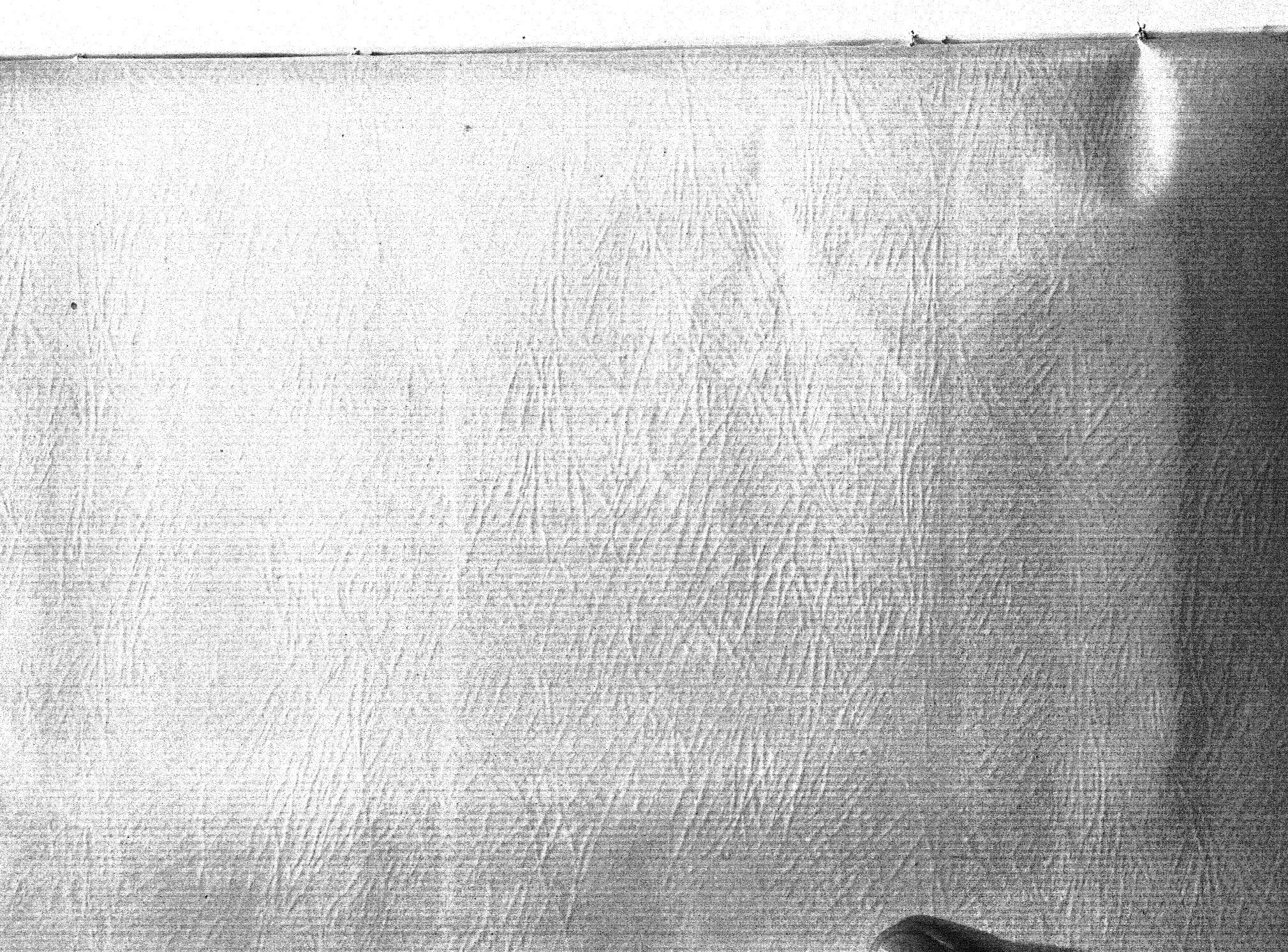
THE MANAGEMENT OF PUBLIC ENTERPRISES

BY

IQBAL NARAIN

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Paper No. 49



THE MANAGEMENT OF PUBLIC ENTERPRISES*

A Study of Some Aspects in the Context of the 'Socialistic Pattern'

By
IQBAL NARAIN

India has been slowly but steadily moving ahead on the road to "Socialistic pattern" which means more and more of public enterprises. In the year of freedom a resolution adopted by the A.I.C.C. on the 17th November emphasized that "our aim should be to evolve...an economic structure which will yield maximum production without the creation of private monopolies and concentration of wealth... Such a social structure can provide an alternative to the acquisitive economy of private capitalism and the regimentation of a totalitarian state." Again, in 1948 the Congress advocated a drift towards the public sector in the following terms:

1. "New undertakings in defence, key and public utility industries should be started under public ownership. New undertakings which are in the nature of monopolies or in view of their scale of operations serve the country as a whole or cover more than one province should be run on the basis of public ownership"...
2. "In respect of existing undertakings, the process of transfer from private to public ownership should commence after a period of five years".
3. "To secure efficient development and conduct of public-owned industries, suitable administrative agencies should be set up..."

In April 1948, a clear statement of industrial policy was laid before the 'Dominion Assembly' which indicated India's bent towards the socialistic pattern and which committed her to a number of public enterprises:

> "The Central Government decided that the manufacture of arms and ammunition, the production and control of atomic energy and the ownership and management of railway transport should be its exclusive monopoly. Further, in any emergency, the Government would always have power to take over any industry vital for national defence. In the case of the following industries the state...would be exclusively responsible for the establishment of new undertakings: (1) coal... (2) iron and steel, (3) aircraft manufacture, (4) ship building, (5) manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving sets, (6) mineral oils.
>
> While the inherent right of the state to acquire any existing industrial undertaking will always remain, and will be exercised whenever the public interest requires it, Government have decided

* The Indian Journal of Public Administration, July-Sept. 1958, Vol. IV, No. 3.

to let existing undertakings, in these fields develop for a period of ten years, during which they will be allowed all facilities for efficient working and reasonable expansion."

The statement accepted 'mixed economy' as a suitable basis for the industrial development of the country, though it equally emphasized the state regulation of the private sector of industry as of basic importance to planned development.

This policy was accorded legal sanction by the Industries (Development and Regulation) Act in 1951. "The industrial policy of the Government of India pronounced last year had been endorsed by the House", observed Dr. Mukherjee, the Minister for Industries, on April 6, 1949, "and the Bill was only seeking to implement that policy by giving certain powers to Government which would make it possible to discharge their obligations." The policy was also endorsed by the Planning Commission in its final report.

New strides in the direction of the socialistic pattern followed soon after. At the Ajmer session of the A.I.C.C. it was laid down that "the objective of the Congress is the establishment of a co-operative commonwealth and a welfare state." At the same session it was also emphasized that "the country already has a powerful state-owned public sector in industry. This should be enlarged by the addition of other basic and new industries, wherever possible." And at long last India committed herself to the socialistic pattern, when Sri Nehru moved and carried the following resolution at Avadi session:

> "In order to realise the object of the All-India National Congress, namely, the well-being and advancement of the people of India and the establishment in India, by peaceful and the legitimate means, of a co-operative commonwealth, based on equality of opportunity and of political, economic and social rights and aiming at world peace and fellowship and to further the objectives stated in the Preamble and Directive Principles of State Policy of the Constitution of India, planning should take place with a view to the establishment of a socialistic pattern of society, where (*a*) the principal means of production are under social ownership or control...".

The Resolution not only committed India to the growth of the public sector but also advocated state regulation of the private sector which was to play a constructive role within the pattern of the plan. For the Avadi Resolution on economic policy stressed that the state will

> "...(*ii*) have overall control of resources, social purposes and trends and essential balances in economy;
>
> (*iii*) check and prevent evils of anarchic industrial development by the maintenance of strategic controls, prevention of private trusts and cartels, maintenance of standards of labour and production;"

The basic idea of the Avadi Resolution has been well incorporated into the Second Five Year Plan which refers to it in these words:

> "These values or basic objectives have recently been summed up in the phrase 'socialist pattern of society'. Essentially, this means that the basic criterion for determining the lines of advance is not private profit but social gain.... The problem is to create a *milieu* in which the small man who has so far had little opportunity of perceiving and participating in the immense possibilities of growth through organized effort is enabled to put in his best in the interests of higher standard of life for himself and increased prosperity for the country...
>
> For creating these conditions, the state has to take on heavy responsibilities as the principal agency speaking for and acting on behalf of the community as a whole. The public sector has to expand rapidly..."

Thus India has been set on the road to more and more public enterprises.

II

Though the new approach of public ownership is "argued in terms of public accountability, of planning against unemployment, of more opportunities for promotion by ability, of the extension of industrial democracy, and of general desirability of replacing motive of private profit by those of 'responsibility' and serve to the community," the public enterprises would not ring in the millennium by themselves, unless they are properly managed. The management of public enterprises is the key to their successful operation much in the same way as the proper control of the rudder is necessary to guide a ship in a definite direction. It is a difficult task and involves many risks. This is so because of several reasons. Firstly, the profit motive which accounts for keen supervision and control and good management in private industries is lacking in public enterprises. Secondly, the managers of the public enterprises in their enthusiasm to work as model employers might display utter disregard for the economic implications of the terms they offer; this would develop a tendency to be less resistant to the demands of the labour and thus inflate the wage, cost and price structure. Thirdly, public enterprises admit of no stimulus of competition and thus a complacency as to the quality of goods might develop. Fourthly, there is also the danger of excessive bureaucratic centralism, inflexibility, delay and insensitivity to consumer interests or the well-being and legitimate demands of labour under the impulse of uniformity, and strict adherence to rules and regulations. Lastly, there is a particular difficulty that India has to face like other under-developed countries and it is that the state has to start on a clean slate, having little by way of business skill and experience of a developed private enterprise to draw upon. For all these reasons the problem of management is of basic importance in regard to the conduct of public enterprises.

III

A discussion of the problem of the management of public enterprises should begin with certain *a priori* considerations. In what does the goodness of the management of a public enterprise consist in the specific context of a socialistic pattern? The problem of good management here is not a problem of mere efficiency or maximum profits. The socialistic ideal aims at the elimination of class conflicts and securing for everybody his due. In its perfect form it should admit of no exploitation by the producers of the consumers and the labourers. In fact this is the paramount justification for a public enterprise. Due stress should, therefore, be laid on the satisfaction of consumers and the good of the labourers in determining the proper contours of management. Further, socialism also emphasizes democratic conditioning of affairs which means maximum of popular control and public accountability. Thus good management of public enterprise, according to the socialistic ideal, should consist in popular control of policy on the planning side, responsibility and accountability on the managerial side, and autonomy, efficiency, economy and above all consumer's satisfaction and labourers' well-being on the operational side. The ideal is the end and one has to approach the problem of management with a view to fulfilling this end. Of course, all the aspects of the problem cannot be dealt with here. A modest attempt has, however, been made to deal with four questions in this regard: (*a*) What form of management would be more suited to the foregoing ideal? (*b*) Should there be a centralised or decentralised pattern? (*c*) How should the consumers be associated and their interest best represented? and (*d*) How should labour be given its due?

IV

Let us begin with the question: What form of management would best suit the interests of a public enterprise? This takes us to a discussion of the more important and popular forms of management:

NOTES

(I) *The Departmental Pattern :*

Enterprises under this system are owned and managed as government departments in the form of a separate unit under a Board of Control or as part of a bigger congregation. The outstanding feature of this system is full governmental control and responsibility. The policy and finance of the state enterprises are subject to sanction and control of the people's representatives sitting in the legislature. They are subject to accounting and audit controls applicable to other government departments. They are in charge of civil service men. Under this pattern thus "the government department is a strictly hierarchical institution at whose head is a minister answerable to Cabinet and to Parliament for its activities. The administration of the department is naturally largely in the hands of its senior civil servants and financial control rests with the Treasury."

The system is already in vogue in India. Railways, post and telegraphs, defence industries, state trading in food, the Hirakud and Bhakra-Nangal multi-purpose projects, Chittaranjan Locomotive Works, etc., are thus managed.

The departmental pattern on the whole stands discredited today. Firstly, it is contended that by its very constitution, it is likely to be inefficient. Owing to Government's full responsibility for such enterprises, there is strict parliamentary control and searching criticism on the floor of the legislature. As observed by Herbert Morrison, "Undue interference by the Minister would tend to impair the board's commercial freedom of action." Secondly, the pattern would convert industrial democracy into a stronghold of bureaucracy. And bureaucracy is incapable of handling industrial enterprises by temper, training and experience. It is characterized by red-tapism, jobbery, corruption and too much influence of political bosses. The bureaucratic set-up is rather too rigid and this militates against the flexibility which is of basic importance for the conduct of a business concern. Long procedures and consequently long delays stand in the way of swift action which is nowhere so important as in a business concern. The bureaucrats' over-emphasis on caution, conservative temper, and 'through the channel mentality' do not leave even elbow room for refreshingly bold approaches, adventure and risk. Again, the civil servant as a rule ignores with contempt the needs and aspirations of the people. It is no wonder if the Seminar on the Organization and Administration of Public Enterprises in the Industrial Field held in Rangoon under the auspices of ECAFE found the departmental pattern replete with "red tape, inadequate service and insensitivity to consumer's good." Thirdly, departmentally managed industries are also exposed to the danger of reckless adventure to which a party in power may resort, particularly when its position is at stake. Power in the industrial sphere may be used as a bait to win political battles. Fourthly, it is also feared that rhythmic viccisitude of political life might affect the continuity of interest and disturb the effective handling of the industrial enterprise which should, therefore, be kept at a respectable distance from the whirlwinds and storms of active politics as far as possible. It was for this reason that Barbara Wooton lamented, "If the existence of political parties does mean the right to change our mind about every thing every six months, then I am afraid it is incompatible with long-term planning."

All in all thus the case against the departmental pattern is very strong; yet it can be profitably employed in certain specific cases. For example, concerns where secrecy is a virtue or which are basic to security, peace and order have to be organised on the departmental pattern, *e.g.*, defence industries, post and telegraphs, and so on. Similarly, the management of such industrial concerns as involve abundance of governmental discretion should be conducted on the departmental pattern. State trading in food stuffs is an illustration in point. Again, industrial projects, which are just in their infancy—more in their embroynic stage of planning than of ripe execution to admit of autonomous management—may be departmentally

operated in the interest of healthy up-bringing and planned growth. River valley projects may be cited as an example. The departmental pattern should, however, not be adopted indiscriminately and generally. It is well for the Government of India to follow A.D. Gorwala's advice that departmental management should just be rare rather than the general rule and the cases where it is inevitable must be defined, isolated and kept down to the minimum.

(2) *The Operating-Contract System :*

This system involves state ownership and private operation or management with the willing acquiescence of the state itself. Under this system the state enters into a contract with an established private company for the erection of the plant, provision of technical advice and/or the operation of a public enterprise, itself agreeing to reimburse the contractor for the costs. Such arrangements are usually of a temporary nature and are generally hedged in with certain conditions, such as participation in the risk capital, terms terminable after a definite period, reasonably fixed terms for training of personnel and rewards for management and so on, so that the state may be left free to assume its charge finally, when it feels it has equipped itself for the job. A justifiable occasion for the adoption of this system arises only when there is shortage of technical and business skill and experience at the disposal of the state to manage it by itself. And this explains why it is at times resorted to by under-developed countries.

India too adopted this system in certain cases, *e.g.*, the Hindustan Housing Factory (from April 1953 to August 1955), the Hindustan Steel Company at Rourkela, the Eastern Shipping Corporation and the Hindustan Shipyard Ltd.

Though the system makes available skilled and experienced hands, yet it is at best a transitional arrangement of limited use. Battles are not fought and won with the help of mercenary soldiers. The managers under the system have little personal interest which might serve as an economic incentive to ensure that the contractors would operate the enterprise with maximum efficiency and economy. Again, if this pattern is adopted permanently or generally, it would defeat the very purpose of a state enterprise which is state management and would mean a confession on the part of the state of its inability to cope with the burden of state enterprise.

(3) *The Co-operative Type :*

This system is a half-way house arrangement between capitalism and state socialism. It postulates co-operation between private sector and public sector both in ownership and management. As regards ownership, usually a majority of shares are owned by the Government and the balance is left to be subscribed by the private sector. As far as the management is concerned, it is usually in the hands of the private sector under the strict and direct control of the Government. The Government can reserve to itself the right to appoint the managing director, approve policies, etc. As the dominating share-holder, it can insist upon securing first hand knowledge of the way industry is conducted, of its plans for development and of its financial policies, suggesting improvements, stimulating new industries, and so on.

This system too has been adopted in India, though sparingly; for example, in the Indian Telephone Industries, Ltd., there exists, a partnership between the Government of India, Mysore Government and the Automatic Telephone and Electric Co. Ltd. was entered into in 1950. Again, there was, from April 1953 till August 1955, a partnership between the Government of India and an Indo-Swedish Firm in the Hindustan Housing Factory Ltd., on the basis of 50 per cent shares each; in the Hindustan Machine Tools Ltd., 85 per cent and 15 per cent shares were held respectively

by the Government and M/s Oerlikons, till the Central Government took over the entire subscribed share capital. Similarly, the Government of India and the Scindias combined in 1952 with 66 2/3 per cent and 33⅓ per cent shares respectively in the Hindustan Shipyard Ltd., and with 74 per cent and 26 per cent shares in Eastern Shipping Corporation, in 1950.

The system has the advantage of easing the capital difficulties of the state. It also secures state control without exclusive state socialism. "The fact that the government-nominated chairman has to render an account both to the Government, which is the principal shareholder, and to the ordinary shareholders often comples him to be commercially honest and reasonably efficient in the administration of the enterprise over which he presides." Further, the system while emphasizing the role of the public sector, also establishes links and co-operation with the private sector. Besides, the enterprise is managed on commercial lines. It is operated, financed and audited as a private limited company. And thus the system enjoys greater initiative, flexibility and singleness of action.

Yet the system only seeks the union of the irreconcilables. The private and public interests are competitive in essence and it is basically wrong to blend them together and expect whole-hearted co-operation and harmonious working. Again, the enterprises thus managed "become absolutely impervious to public control and public criticism and were as if kingdoms within kingdoms." Moreover, "such industrial undertakings whittle away parliamentary control over public money." It is no wonder thus if the ECAFE seminar looked upon this system as one presenting "vague and extremely difficult forms of organization and control."

(4) *Autonomous Management Pattern :*

Under this system a separate agency is created by a specific or under a general law of Parliament to conduct a public enterprise in its own name more or less on the lines of a business enterprise. They are autonomous institutions for all practical purposes. They manage their own accounts and are financed either from government loans or grants or they can also raise loans from public. Again, they are free to use and reuse their revenue. They are, however, expected to follow the directions of the Ministers concerned on a few specified matters and to be under the general supervision of Parliament of the country, so that they might not lose sight of the social purpose associated with a public enterprise. For example, the Ministers usually enjoy powers to appoint the members to the governing board and Parliament may scrutinize the report on the working of autonomous bodies. Autonomous management may assume either the form of a public corporation or a state-owned joint stock company.

A public corporation is a corporate body which can sue and be sued, created under a specific act of Parliament with specific statutory powers and obligations and usually subject to taxation in the normal way. Certain characteristics distinguish a corporation. Firstly, the corporation owes its existence to a special act of Parliament and hence is rigid in structure. Amendments can be introduced into its constitution by amending the specific law. It does not mean that it is not subject to the ordinary civil or criminal laws of the land. Secondly, a corporation has to stick to the end and purpose prescribed by the specific law that gave birth to it. Thirdly, its personnel do not form part of the civil service. Fourthly, it has a self-contained finance, separate from the national budget, though it is still subject to a certain amount of Treasury control. Lastly, the corporation in a way admits of double government. A distinction is made between determination of policy and general management, the former being subject to ministerial and treasury control, while the latter is under the corporation. "The Public Corporation is essential when the undertaking is discharging what is in effect an extension of the functions of the Government, *e.g.*, irrigation and hydro-electric projects, dissemination of information as in broadcasting or any

form of transport." Two significant examples of this form in India are : the earliest, Damodar Valley Corporation set up in 1949, and the latest, the Life Insurance Corporation established in 1956. As far as the state-owned joint stock companies are concerned, they do not need a special act for their creation. By registration under the Companies Act, a state-owned joint stock company is born as a separate legal person. Its formation thus is easy. Normally state is the exclusive shareholder. Joint ownership is also permissible. Enterprises which are purely of a commercial character are preferred for this model. We have many examples of this pattern in India, and the Sindri Fertilizers and Chemicals Ltd., is the most well-known among them.

Many advantages are claimed for the autonomous form of management. Firstly, this pattern makes the management of public enterprises possible on the lines of a private enterprise which is the key to their successful operation. Secondly, the system provides for a healthy combination of autonomy with accountability. Autonomy is the vital principle. There are no vexations of bureaucracy, no parliamentary pin pricks, no harassing forms of financial control. Autonomy makes the system flexible. Economic life is essentially dynamic ; it is full of changes which are both vital and rapid. The success of a commercial enterprise depends on quickly responding and adapting itself to this cycle of changes. This is possible only when the form of industrial organisation is devoid of red-tapism with its characteristic slowness of decision and action, or conversely speaking, it is autonomous enough to afford flexibility and easy adjustment. And this is what the autonomous pattern exactly aims at. Again, accountability and control is equally important. "Out of the adequate considerations to national interest and the needs of national planning, we must have some means of public accountability and control—control is a continuous process of checking or encouraging... to be effective, it requires more information and a greater intimacy with the organisation concerned than is essential for accountability." Further, as held by the General Council of the T.U.C. in their Interim Report on Post-War Reconstruction, it is also necessary "to provide for the ultimate responsibility of the managements of socialized industries to a Minister in order to ensure the proper co-ordination of their policies and that the industries are conducted in full accordance with the Government's general plans of the maintenance of employment, the control and location of industry and the furtherance of socially desirable expansion of production." The autonomous form of management provides for all this. The Minister's hand in the appointment of the Board of Directors, their shares, both through the Board and direct, in the formulation of policy, submission of the annual report on the working of the enterprise and its scrutiny by a special committee of the legislature are some of the means to secure the desired ends of accountability and control.

The disadvantages of the autonomous pattern are more or less the same as of the mixed-ownership pattern. It is difficult to draw a line between policy control and management. The two overleap each other. This presents a possibility of conflict between the government and the autonomous management. Excesses may occur on both ends. There might be excess of autonomy and a tendency of utter disregard for accountability and control might develop, or there might be too much of state interference. And thus Government and the autonomous management might pose as rivals and accuse each other of excess, making it difficult to be discovered where actually the fault lies. It is necessary, therefore, to strike a balance between autonomy and control, so that both remain real and none becomes arbitrary. Given this balance, the autonomous form of management is the best of all. Again, Parliament should prescribe by law the cadres and grades of the employees, their conditions of work, etc., so that to minimize the chances of corruption and to develop a sense of security among the employees. It should also constitute a committee to examine closely the reports on the working of autonomous bodies and offer comments. The reports must be

submitted annually. Further, great care should be taken with regard to appointments on the Board of Directors. Men gifted with industrial statesmanship alone can cope with the challenge that public enterprises throw as regards their management and organization which is as difficult as carving out a new constitution for the country. They alone should be picked up without personal, sectarian or provincial considerations. As observed by Robson:

> "All the experience we have so far had of nationalised industries serves to emphasise the crucial importance of the governing board. The success or failure of nationalisation is, indeed likely to depend more on the quality of the boards directing the public corporations than on any other single factor. For from this flow all the decisions on policy and administration which together make up good or bad management."

V

After this long discussion on the form of management, we now turn to the issue of the protection and representation of the consumer's interest. The competitive zeal of the private entrepreneurs makes them often cater to the consumer's interest. But public enterprises are generally monopolistic and thus fear no competition. This gives them an opportunity to penalise the consumer by several methods, such as the addition to selling costs, monopoly profits, levies on consumers' preferences, and so on. It is necessary, therefore, to set up consumers' councils to look after the interests of the consumers.

The councils should be really representative bodies and not a mere assembly of officials or highly placed non-officials who are too distant from the consumers to know their real interests or represent them. The council should neither be a nominated one nor a directly elected one, because in both cases it would be reduced to a political, party or power organ, while the need is of a sober service institution. The only alternative is its election on the basis of proportional representation by the legislature. This would make it an institution 'of the people and for the people', non-partisan and independent to the maximum. The tenure of office of its members should be long, say seven years (even longer than the legislature itself) and the members should have the right to be re-elected. This would ensure that the council would become a store-house of industrial experience and would have an even tenure, not necessarily disturbed by the fluctuations at the polls.

The consumers' councils should be independent bodies attached to each public enterprise and granted a definite status of an advisory council. Full details of policies, plans, costs and working should be made available to them. Their say should matter particularly with regard to quality of goods and prices. The council should have the right to submit to the legislature a quarterly report on its work, noting in particular the cases of difference of opinion with the Government. This would make its advice weigh with the Government and keep it up and doing in the right earnest. Further, it must enjoy the power to attend to the complaints of the consumers, enquire into them and pass them to the Government for redress with its own recommendations. Again, it should also acquaint itself with the needs and preferences of the consumers and recommend them to government for a sympathetic consideration. It should also explain the difficulties of the Government, if any, to the consumers in this regard, and popularise its policy on merits. It must have funds of its own. The officials of the council should be paid so that as whole-timers they may devote themselves heart and soul to their job and thus equip themselves to contribute their instructed judgment to the consumers' good. Thus also they would be in a position to give rational, studied and practical advice and offer constructive criticism. The ideal consumers' council has a double person-

ality; it has to behave as a friend of the government and a trustee for the consumer. It is for this reason that the Government, as the arch-manager of public enterprises, should take them into confidence in the day-to-day activities, so as to enable them to appreciate its intentions, difficulties and limitations. This would strengthen the hands of the Government on the one hand and develop industrial democracy in the country on the other.

VI

Now we turn to another question, that is, what amount of centralisation or decentralisation is desirable in the management of public enterprises? This problem arises with regard to those industries which are big enough to admit of a network of units, spread far and wide in the country. The guiding motive here should be uniformity in policy control and institutional activities and autonomy in functional activities. For this reason, there should be one central Board of Directors attached to each public enterprise to lay down policy, regulate institutional activities and exercise control and supervision. Regional boards under the central board should not be set up, unless there are very many units of a public enterprise; for they are uneconomical, diffuse responsibility, breed conflicts of jurisdiction and make co-ordination difficult. Mr. Gorwala's suggestion that there should be one central Board of Directors of six for the entire public enterprises operating in the country is not convincing. It would create a Leviathan without ensuring operative efficiency. Each public enterprise has problems specific to it and so a common central Board of Directors would not do. Further, the area of public enterprises is too vast and problems too complex to be coped with by one Board. Again, it would weaken the reins of control and supervision.

Last but not least in importance is the issue of the well-being of the labourers. The socialistic pattern of society without the labourer getting his due would just resemble an Egyptian mummy, rich in all the splendours of the living but devoid of life. In order to protect the interests of the labourer and to foster them, it is necessary to have representatives of the labour serve on the management of a public enterprise. For, as it has been observed by Laski, "classes excluded from a share in power have also been classes excluded from a share in benefits." They should have a say in determining the conditions of service for the labourer, say his wages, hours of work, leave rules, holidays, amenities for life, protection against exploitation, insurance against casualties and so on. But who shall elect these representatives? They should be elected by the trade unions. At the risk of digression, it may be pointed out here that the trade unions would no more be militant organizations arrayed against the management because there would be no class conflict in public enterprise under the socialistic pattern. Yet they would have a constructive role to play as labour welfare agencies and they should be recognized by the Government in that capacity. Besides, labour tribunals, having both the representatives of labour and management on it, should be established to deal with labour disputes equitably. Above all, the labour should be dealt with as human material and not as mere tools of trade and this would illumine the dream of a socialism with life.

VII

The foregoing discussion would show that the problem of the management of public enterprises is both difficult and taxing, particularly in the initial stages when it damps the ardour of even the most ardent advocate of public enterprises. But here, as everywhere, time and spirit matters. India is just in a stage of transition and experimentation. Our attitude should be that of a relativist and a cautious imitator. We must not go after the British, French or American model blindly. We should profit by their experience and adopt that form of management which suits the genius of the

NOTES

enterprise and ensures industrial democracy with maximum of efficiency, labourers' well-being and consumers' good. We have seen above that no form of management is absolutely good or bad. Yet, as efficiency and consumers' good are best secured when industrial management is enlivened with a spirit of freedom with responsibility, the autonomous pattern is certainly preferable.

New India Press, New Delhi.



SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

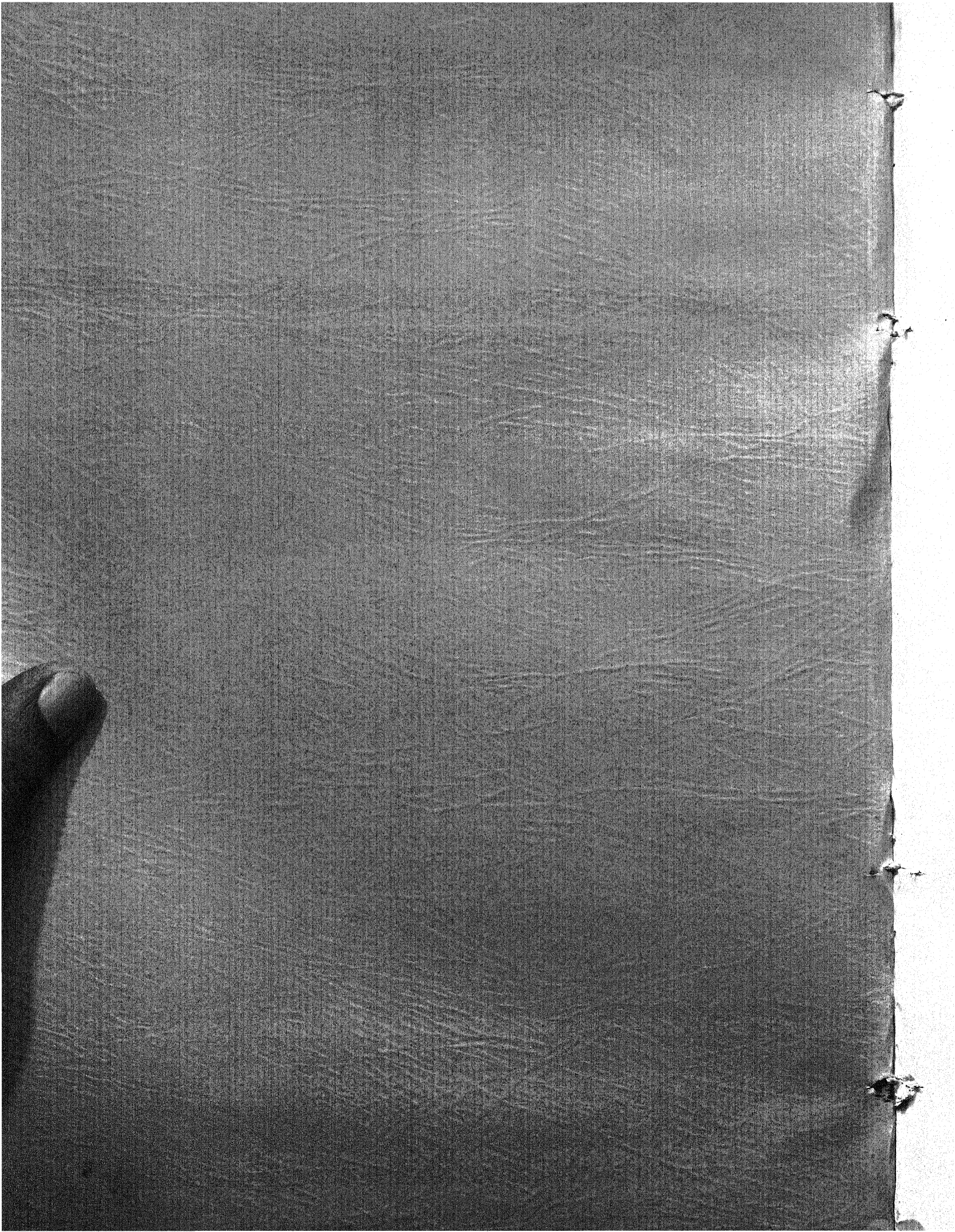
MANAGEMENT OF PUBLIC ENTERPRISES IN THE UNITED KINGDOM

BY

P. CHANTLER

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Information Paper No. 62



MANAGEMENT OF PUBLIC ENTERPRISES IN THE UNITED KINGDOM

By
P. CHANTLER

INTRODUCTION

This memorandum follows the suggested outline which accompanied the Executive Secretary's letter IN/20-7633 of 26th June, 1959. It also conforms to the order of suggested length, and can therefore only outline the situation of public industrial enterprises in the United Kingdom. But I hope that it may prove of some value for the Seminar, where it can be amplified, if thought useful, in the course of discussion. A select bibliography is added, giving sources from which information has been drawn in writing these notes.

I. SCOPE AND IMPORTANCE OF PUBLIC INDUSTRY IN THE UNITED KINGDOM

The present scope of "public industry" in the U.K. is small or large according to one's definition of "industry". If industry is defined narrowly as consisting of *enterprises manufacturing tangible products which could be sold in competitive markets*, then currently the scope is very small. We have, in short, few "major commodities produced by public factories"; the manufacture of commodities for sale is almost wholly in the hands of private enterprises, and there is no likelihood of a major change in the foreseeable future.

On the other hand we have a large range of *public utilities* which operate as public enterprises, in one form or other. They fall into two main groups:

(1) Natural monopolies, where for physical or economic reasons, or both, direct competition between suppliers in the same industry would not be feasible. These include services like gas, electricity and water supply; railway transport; local harbour facilities; and the provision of postal, telephone, and telegraph services. In the United Kingdom many of these services have been wholly or partly provided by public enterprise in various forms for many years, and today they are almost wholly in public hands.

(2) Enterprises which are not natural monopolies, but where private enterprise alone has been thought inadequate or unsuitable in the conditions of United Kingdom, and the supply considered of special importance to the community. These include air lines, broadcasting services, and coal production. In none of these fields, however, has a complete public monopoly of the market been established. There are privately-operated air lines, a commercial television broadcasting service, and imports of fuel with which the National Coal Board have to compete.

The gross revenues of all these public enterprises taken together amounted in 1958 to some £2,400 millions, that is, about 12 per cent of the gross national product of the United Kingdom; the proportion was similar in 1954; there was no major change in their scope between these two years.

II. GENERAL LEGAL AND FINANCIAL SITUATION

The legal and financial provisions for public enterprise vary widely from one type of public enterprise to another. At the one extreme is the Post Office, operating the national postal, telephone, and telegraph services, as a *Department of State*, subject to detailed control by a Minister of the Crown (the Postmaster General), by the Treasury, and ultimately by Parliament to whom Ministers are answerable. At the other extreme, are the local *municipal services*, like water supply in most parts of the country, which are operated by the local councils, subject only to some limited measure of general regulation by the Central Government.

Different from either are the *public corporations* which are today the main medium for operating public enterprises in the U.K. Of the 12 per cent of national gross product which is contributed by public enterprise, three-quarters comes from public corporations. The public corporations themselves differ in large measure. For instance, the Metropolitan Water Board is composed of representatives of the municipal authorities in the Greater London area who constitute it; the Port of London Authority, which provide harbour services in the Thames Estuary, consists mainly of representatives of users of those services. By contrast, public corporations such as those which supply gas, electricity, and coal, are broadly responsible to the Minister of Power, who appoints their members, not to represent any specific interests, but to further "the public interest" generally, by the efficient management of the enterprises entrusted to them.

This "public interest" corporation is the most recently introduced, and can be regarded as the current model for the management of public enterprises in the United Kingdom. On this account, and in order to avoid excessive complication, the discussion which follows is concentrated on this type of public corporation.

These corporations are all established by special statutes, which prescribe their powers and duties—the Coal Industry Nationalisation Act, 1946, the Electricity Act, 1947, and the Gas Act, 1948, for instance. The intention of the statutes is clearly to provide a very large measure of operating autonomy to the corporations, on the general score that commercial enterprise may not be operated so efficiently if controlled and organised like a public department. The Minister is given only broad powers of control, with specific authority over the corporations in a limited range of their activities.

The situation can be shown by listing the main relevant statutory provisions, which can be summarised as follows :

(1) The "responsible Minister" appoints the members of the governing Boards for specified periods.

(2) The Boards are required to consult him on their programmes of research, training and education.

(3) They must consult him in devising their capital investment programmes.

(4) Any finance external to the corporation required for capital investment needs the sanction of the responsible Minister and of the Treasury. Such new investments carry a Treasury guarantee of interest payment and ultimate repayment of capital; at the present time, as a matter of convenience, all such capital finance is provided through the machinery of the Treasury itself. There are no examples of joint public-private financing among the U.K. public corporations; all capital is fixed-interest bearing, and any

surpluses earned are used for reducing prices or developing the enterprise.

(5) The governing Boards of the corporations are instructed to manage their undertakings so that "the revenues of the Board shall not be less than sufficient for meeting all their outgoings properly chargeable to revenue account...on an average of good and bad years" [Coal Industry Nationalisation Act, 1946, Section 1(4) (*c*)]

The operational finances of the public corporations are no part of the annual national budget; for their revenue account they are expected to "stand on their own feet"—as a privately-owned enterprise must do.

(6) The Minister may require any information from the corporations.

(7) The corporations must publish annual reports and accounts, and these are laid by the responsible Minister before Parliament. The Minister nominates the auditors for each corporation and prescribes the form of the accounts, but they are *not* subject to public audit.

(8) The Minister may give to the governing Boards "directions of a general character as to the exercise and performance by the Board of their functions in relation to matters appearing to the Minister to affect the public interest". [Coal Industry Nationalisation Act, Section 3(1)]

(9) The Minister may give a specific direction to the corporation to remedy any defect in their "general plans and arrangements" disclosed in representations made to him by any of the consumers' councils established under the acts to sponsor the interest of consumers.

Thus the statutory provisions leave the main responsibility in management with the public corporation themselves. In practice, relations vary somewhat from time to time according to prevailing circumstances, the policy of the Government of the day, and the personalities of the responsible Ministers and of the Board members. But it is indicative of confident relationships that no Minister of Power, for instance, has ever given any general direction, or any direction based on representations by a consumers' council to the coal, gas, or electricity industries.

III. POSITION OF THE CHIEF EXECUTIVES OF PUBLIC INDUSTRIAL ENTERPRISES

Just as legal and financial status varies greatly from one type of public enterprise to another, so does the position of those appointed to manage them. The Director General of the Post Office is responsible in detail to the Postmaster General (a Minister of the Crown), for instance, whereas (as shown above) the Chairman of the National Coal Board has only a general responsibility to the Minister of Power. The following notes describe the position of members of the Boards of public corporations.

First, as to *sources of recruitment*. The intention of the acts establishing the corporations is clearly to draw members from a very wide range of experience. The only groups specifically barred are Members of Parliament and Ministers of the Crown—evidence of the intention to insulate the management of the corporations from day-to-day political influences. The statutory provisions covering sources of recruitment are on the lines of the following, quoted from the Gas Act, 1948. This Act provides that the members of the Area Gas Boards shall be :

> "appointed by the Minister from amongst persons appearing to him to be qualified as having had experience of, and shown capacity in, gas supply, local government, industrial, commercial or financial matters, applied science, administration, or the organization of workers" [Section 5(1)]

A study made of the background of Board members of twelve United Kingdom public corporations in 1950 revealed the following information :

Occupational background	*Full-time members*	*Part-time members*	*All members*
Company directors	13	25	38
Trades union officers	9	7	16
Managers & engineers	10	4	14
Public servants	4	4	8
Accountants	3	1	4
Armed forces	3	..	3
Cooperative movement	1	2	3
Solicitors	2	..	2
Agriculture	..	1	1
Banking	..	1	1
Journalism	..	1	1
Politics	..	1	1
Scientist	1	..	1
Unclassified	1	..	1
Totals	47	47	94

[*Source :* "The Men on the Boards" : The Acton Society Trust (1951)]

Thus a wide range of occupational experience has been included in the membership of the Boards. As a broad generalisation, it could be said that most of the full-time members had previous experience in their particular industry, whether as directors, salaried managers, engineers, accountants, or trades union officers; the part-time members were drawn from a somewhat wider range of other occupations, a majority of them either controlling the affairs of other enterprises, as company directors, or working as trade union officers.

As for the *range of authority and responsibility* of members of the Boards of public corporations, it is evident from what has been stated above that they are closely comparable to those of Boards of Directors governing major privately-owned enterprises. The above table shows, indeed, that of the twelve Boards reviewed in 1950, forty per cent of the members either were or had been company directors : they would probably not have been ready to accept membership of a public Board if their authority had been greatly diminished there.

The main differences between the degree of control exercised by a public corporation and a private enterprise Board are that the former operate under the terms of the Acts of Parliament which established them, and are subject to the control of the "responsible Minister". But, as noted above, the Acts vest large managerial powers in the Boards. The width of their responsibilities is illustrated by the following statement of the general obligations of the National Coal Board in the Coal Industry Nationalisation Act. The Board have the responsibility of :

> "making supplies of coal available, of such qualities and sizes, in such quantities and at such prices, as may seem to them best calculated to further the public interest in all respects, including the avoidance of any undue or unreasonable preference or advantage." [Section 1(1) (*c*)]

As for the control exercised by the Minister, it will be clear from what is said above that this is, in general, of broadly supervisory character only and not inhibiting to managerial quality and initiative on the part of the Boards. Parliament, which created the public corporations by statute, has still less control over their management. It receives a great deal of information about their operations and discusses their activities from time to time,

but has no direct powers over them. Parliament acts rather in the role of a forum, in which the interests of consumers and employees can be heard, and also that of representing the ultimate owners of the public undertakings—the citizens and taxpayers of the country. Shareholders' representatives must leave management to the Boards appointed for that purpose, and intervene only by showing their confidence (or lack of confidence), as occasion justifies, in the general policies of the Boards.

To sum up : the range of authority and responsibility enjoyed by the Boards of public corporations is widely drawn by statute, and respected in practice.

IV. CURRENT MANAGERIAL PROBLEMS, AND SOLUTIONS SOUGHT

The general responsibilities laid upon the public corporations are the efficient supply of the service entrusted to them, including at least covering their current costs with the revenues earned, over a period of years; the extension of supplies wherever economic; and the welfare of their employees. In a short memorandum, one can do little more than briefly mention the main managerial problems raised by these tasks, and note how they are being tackled.

One paramount need is clearly to attain the high quality of senior management required in these large public corporations. This poses the problem of securing people of intellectual capacity, drive, and experience for membership of the Boards. It has been shown above that the members have been widely drawn. There has been evidence, however, that remuneration and conditions of employment have at times been inadequate to attract the right men. To meet this, the salaries of Board members have been increased and pension schemes introduced for them; this is an acute need, but also difficult one to meet, because of the limited period for which members are appointed—normally five years for full-time and three years for part-time members, both renewable.

To improve management below Board level each of the public corporations has well-developed training schemes. The National Coal Board, for instance, have their "ladder plan", to assist the men who work for them to climb to the top ranks of management. The scheme includes arrangements for employees to spend part of their paid working time each week attending courses on science, technology, and administrative subjects, and includes the offer of 100 university scholarships each year. Apart from such provision to enable employees to take external courses, the Board has staff training courses within its own organisation for the various grades of technicians and administrators. Details are given in the Board's Annual Reports (for instance paragraphs 224—244 of the Report for 1958).

Managerial efficiency is partly a question of the quality of the managers; it is also a problem of sound organisation. In this field one of the main questions is the optimum size of the unit of management. Frequently there is a conflict between operating economies to be reaped in a unit of greater size, and the better control and more intimate relations possible in a smaller unit; the optimum varies from industry to industry, and within each industry the object must be to organise each managerial unit so as to achieve the optimum for the particular task : for instance, the optimum for production activities may be quite different from that for commercial activities. In the electricity industry, to take one example, there is a single corporation, the Central Electricity Generating Board, responsible for generating the public electricity supply throughout England and Wales. It operates the power stations, integrating them by means of the national transmission grid. By contrast, the distribution of electricity in England and Wales is the responsibility of twelve Area Electricity Boards, who are loosely associated with one another (and with the Central Electricity Generating Board) through the Electricity Council on which they are all represented, with an indepedent chairman, two deputy chairmen, and up to three other members all appointed as such by the Minister of Power.

Each of the Area Electricity Boards is subdivided into a number of Sub-Areas, and they, in turn are divided into Districts, responsible for display centres, showrooms and servicing arrangements. "It will thus be seen" (to quote a former chairman of the electricity industry, Lord Citrine) "that the area organisation consists of three tiers : Headquarters, at which general planning and coordination are done; the Sub-Areas, who are responsible for the implementation of policy, and general administration; and the District level which is concerned with the direct services to the consumer" [Efficiency in the Nationalised Industries : A Symposium : Institute of Public Administration : Allen and Unwin (1952)]

Operational research and O & M studies have been increasingly used by the public corporations as means for improving their managerial efficiency. The following paragraph, for instance, from their 1957-58 Annual Report, summarises the position in the gas industry, which is organised under twelve Area Boards :

> "Organisation and Methods Sections, whether under that name or another, are now general in the Boards, and their work is considered to have led to significant economies and improvements in efficiency. The kind of assignment which they have been given is to examine clerical, accounting and statistical practices and the possible use of electronic digital computers with a view to economies by centralisation. Work study and operational research have been considerably extended and have been applied to such subjects as the handling of materials, internal transport and mobile plant, the charging and discharging of tower purifiers, coke loading to road vehicles and ships, and the work of prepayment meter collectors. Particular attention has been paid to the introduction of electronic equipment for accountancy purposes, and Boards who consider such equipment justified have placed their orders and have begun to receive or will shortly receive deliveries of the machines."
>
> (Gas Council Annual Report and Accounts,1957-58, paragraph323)

One aspect of management which is of overwhelming importance in a large public enterprise is labour relations. The founding statutes of the public corporations charge them with special responsibility to establish machinery for negotiating terms and conditions of employment, and for consultation on questions relating to the safety, health, or welfare of their employees. In each of the public corporations there have been established at each level of management joint committees of representatives of the Boards and of their employees. The following paragraph summaries these arrangements in the coal industry:

> "A National Conciliation Board, composed of a Joint National Negotiating Committee and a National Reference Tribunal, considers questions which may concern the whole industry. The Joint National Negotiating Committee is composed of up to 16 members nominated by the National Coal Board (of whom six must be Board members), and up to 16 by the National Union of Mineworkers : there are two chairmen and two secretaries, one from each side. If the Joint National Negotiating Committee fails to agree, cases can be taken to the National Reference tribunal, whose awards are binding on both sides. The Tribunal contains three "permanent members" appointed for three years by the Master of the Rolls (a high legal authority) after consultation with the Board and the Union. None may be engaged in the coal mining industry nor be a member of either House of Parliament, unless a member of the House of Lords who holds or has held high judicial office. Beneath the National Board, there is a Conciliation Board for each coal-mining District, with an independent District Referee to whom questions are referred for decision when the Conciliation Board cannot agree; his decision

is binding. Finally, there is a Joint Disputes Committee at each colliery (some 950 in number) with provision for arbitration by an independent Umpire (chosen from a panel established under the scheme) whose award is binding. This scheme covers the manual workers at the collieries; there are similar schemes for negotiations concerning managerial, junior administrative and clerical staff, workers at the National Coal Board's coke ovens, and for those at its briquetting plants."

To sum up : the public corporations must face the constant tasks of improving efficiency, meeting economic demand, and promoting the welfare of their employees. These tasks raise problems of securing high-quality management, of selecting and training their administrators, of studying, and, where appropriate, adopting, technical aids to management, of subdividing their organisation to achieve the optimum units in the various branches of management, and of operating a harmonious and effective system for consultation and negotiation with the people who work for them.

V. RECENT MANAGERIAL IMPROVEMENTS

The effective management of any large undertaking must include the constant search for improvement in all aspects of their administration. Evidence of this constant search by the public corporations of the United Kingdom is found in their Annual Reports, which show that improvements are being achieved over a wide range of managerial problems. Looking at the question generally, one can say that probably the most important major improvements in management have been those introduced, in the light of experience, to adjust the managerial structure more effectively to the tasks it exists to perform. This process may be illustrated from changes which have been made in the organisation of the National Coal Board and of the Electricity industry. Both of these public enterprises were developed after full study of their problems by a series of high-level, independent, public investigations. The problems of the coal industry were studied by the Sankey Commission (1919), the Samuel Commission (1925) and the Reid Committee (1945); those of the Electricity industry by the Williamson Committee (1918), the Weir Committee (1925) and the McGowan Committee (1936).

When these two industries were integrated as public corporations after 1945, the organisation adopted reflected the proposals of these various investigations. The National Coal Board became owner of about a thousand coal mines, formally owned and operated by hundreds of commercial companies, large and small. The Board was established as a rather monolithic structure, centrally controlled by a single Board of nine full-time members, each of whom was given functional responsibilities. The electricity industry had been operated by over 500 separate undertakings, the majority being municipal bodies, the rest commercial companies, with a public corporation, the Central Electricity Board, owning and operating the main transmission system. The industry in England and Wales was reorganised under the British Electricity Board, responsible for generating public electricity throughout the country, and twelve Area Electricity Boards for selling it in their particular parts of the country. In addition, however, the B.E.A. exercised a general control over the work of the Area Boards.

Since their inception as public enterprises, both these industries have been subject to review by independent committees, and the organisation of each has been altered with the purpose of improving their management. The National Coal Board appointed in December 1953 an independent Advisory Committee under the chairmanship of Sir Alexander (then Dr.) Fleck with the terms of reference : "To consider the organisation of the National Coal Board and to make recommendations to the Board". The Fleck Committee reported in January, 1955, and broadly endorsed the monolithic form of organisation in the coal industry with its system of "staff and line" control. But they saw the need for more firmness in the execution of

policy, and made 60 recommendations intended to ensure that the Board's policy decisions should be carried out properly and promptly, while avoiding interference in the day-to-day work at lower levels of management. They proposed that the Board itself should be strengthened by raising the number of members from nine to twelve, of whom four should be part-time. The full-time members, other than the Chairman and deputy Chairman, should be each given responsibility for a specific part of the Board's management. The Fleck Committee's proposals have now largely been implemented. The Board has been increased to twelve members, and each of the six full-time members other than the Chairman and deputy Chairman are given responsibilities for the following departments of the Board as shown:

(1) Production and Reconstruction;

(2) Marketing and Purchasing and Stores;

(3) Finance;

(4) Industrial Relations;

(5) Staff;

(6) Scientific and Carbonisation, and the Medical Service.

Similarly the electricity industry's organisation was investigated in detail by an independent Committee of Enquiry under the chairmanship of Sir Edwin Herbert, which reported in December, 1955. Like the Fleck Committee for the coal industry, the Herbert Committee made a long list of detailed recommendations for improving the quality of management in the electricity industry. One of their main proposals was that the (former) British Electricity Authority should for the future be responsible only for the generation and main transmission of electricity; they should no longer exercise any general control over the operations of the Area Boards. In the light of the Herbert Committee's proposals, the electricity industry in England and Wales has been reorganised with a Central Electricity Generating Board responsible for generation and transmission only, and an Electricity Council on which that Board and the twelve Area Boards are represented to form the central deliberative body for the industry.

VI. SPECIFIC PLANS FOR CHANGES IN SCOPE, ORGANISATION, OR MANAGEMENT

As shown above, the original main structure of the National Coal Board has recently been endorsed by the Fleck Committee, though modified in some detail, and the method of its operation somewhat altered; the structure of the electricity industry has been changed by the greater separation between the control of generation and transmission on the one side and of distribution and local services on the other. I am not aware of any specific plans for further changes in the scope, organisation, or management of public corporations in the United Kingdom. This, of course, is not to suggest that the forms of organisation now used are necessarily the best : no doubt changes will be made in the future as they have been in the past, in the light of experience, of changing conditions, or new needs. For instance, unofficial proposals have been advanced to break up the monolithic structure of the Coal Board, and substitute regional production boards on the lines of the Area Gas Boards. Such proposals would, on past tradition, be made the subject of full enquiry before they were applied to the structure of the coal industry; they would be applied only if this study demonstrated their merits.

VII. CRITERIA OF EFFICIENCY

A great deal of thought has been given in the United Kingdom to finding satisfactory general criteria for measuring the efficiency of public industrial enterprises. Such criteria are especially needed because most public corporations operate as monopolies, so that the ordinary market tests are not automatically available; because public ownership insulates them from the rigours of the capital market; because they operate under the

gaze of public and parliamentary opinion and are particularly open to criticism of their efficiency; and because, as public concerns, they are particularly vulnerable to pressure for provision of uneconomic services.

No one, however, has yet devised any single criterion for application to any one public enterprise, still less for comparing the efficiency of one type of enterprise with another. It is possible to suggest a general definition of efficiency—for instance the Herbert Committee (mentioned above), enquiring into the efficiency of the electricity industry observed : "An industry's efficiency is compounded of two factors: its success in giving its customers the goods and services they want, and its success in minimising the cost of so doing. The problem in assessing the efficiency of a monopolistic industry, whether nationalised or not, is how to judge whether its consumers are getting what they want, whether the costs are properly allocated between them, and whether the industry is using the least quantity of real resources for any given level of output." (Report, paragraph 23)

The Herbert Committee went on to suggest the following questions whose answers, they thought would help them to judge the efficiency of the electricity industry :

(1) Is the industry making the best use of the capital it raises and the revenues it earns?
(2) Is the industry making the best use of its manpower and physical assets?
(3) Are the consumers being properly charged for the services rendered to them?
(4) Is the organisation of the industry well adapted for securing the best use of capital, manpower and physical assets, and for ensuring that proper charges are made to consumers?; and
(5) Is the organisation well adapted and the staff sufficiently capable to secure the same ends in the future? (Report, paragraph 31)

There are still other questions which seem to me of major relevance in assessing "efficiency"—for instance

(1) Is the industry providing that degree of elaboration (or simplicity) of service which the consumers would most desire to receive (and pay for)?
(2) Is the industry so organised and operated as to be effectively subject to whatever degree of control by Government and Parliament is accepted as being in the public interest?
(3) Is the industry "a good employer"?

While there is no single criterion of efficiency which can be applied to answer all these questions, the test of profits may well be on the whole what comes nearest to such a criterion. But, evidently (as noted above) the profit test cannot provide the same sort of "automatic" efficiency indicator as profits are supposed to provide in competitive markets, with large numbers of buyers and sellers trading in closely similar commodities. The profits test can only be used subject to the following qualifications:

(1) That there is no restriction in the supply of the commodity or service for the purpose of gaining monopoly profits—or for any other reason, such as convenience or indifference.
(2) That due allowance is made for the cost of "social considerations" taken into account in the operation of the public industries, which may have the effect of reducing their profits, like the extension of electricity supplies in rural areas.
(3) That the costing methods used are realistic—that, for instance, they take full account of capital charges, including an equilibrium rate of interest, and depreciation provisions to cover net replacement cost of the supply capacity currently in service.

(4) That correct pricing methods are followed—equating prices with the relevant marginal costs, so far as is feasible.

But, however qualified, the profits test has inevitable limitations as a criterion of the efficiency of public enterprises, and, because in practice it may not be possible to apply one or more of the essential qualifications, its employment may be severely restricted. It is therefore necessary to make the best use of whatever indices of efficiency can be applied to particular aspects of the management of any one public corporation, and attempt to assess its efficiency as a whole from the totality of these results. Examples of such partial indices in use among U.K. public corporations are these:

(*a*) "Output per man-shift" (a crude index of labour efficiency in the coal industry);

(*b*) "Gas made per ton of coal carbonised" (an approach to a test of thermal efficiency at a gas works).

(*c*) "Kilowatts generated per ton of coal burnt" (thermal efficiency at an electric power station).

Such indices may be elaborated, brought together, and qualified systematically in the attempt to obtain a more general assessment of efficiency. For example, the National Coal Board have a system of "colliery profiles", in which a large number of standard indices are put on to sets of punched cards for each of their nine hundred coal mines, so that they can be analysed in detail and in various patterns. These data include output, labour force, productivity, and various types of cost, relative changes over time in any of these data; and qualifying factors for each colliery, such as its age, depth, seam thickness and method of mining. Colliery profiles obviously cannot give a complete index to the efficiency of the National Coal Board. They are a convenient tool for assessing part of its efficiency—which is perhaps as far as one can hope to go in a complex and imperfect world.

SELECT BIBLIOGRAPHY

Efficiency in the Nationalised Industries:
Houldsworth, Jones, Latham and Citrine (Allen and Unwin, 1952)

Nationalised Industry : The Men on the Boards :
Acton Society Trust (1951)

British Public Utility Services :
D.N. Chester (Longmans, 1948)

Business Enterprise :
Edwards and Townsend (Stevens, 1954)

Report of the Advisory Committee on Organisation :
(National Coal Board, 1955)

Report of the Committee of Enquiry into the Electricity Supply Industry
(Her Majesty's Stationery Office, 1956)

Annual Reports of the
National Coal Board;
Gas Council and Area Gas Boards;
Electricity Council; Area Electricity Boards; Central Electricity Boards
(Her Majesty's Stationery Office)

New India Press, New Delhi



SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

SOME EXPERIENCE IN THE MANAGEMENT OF YUGOSLAV INDUSTRIAL ENTERPRISES

BY
NIKOLA BALOG

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Information Paper No. 63

SOME EXPERIENCE IN THE MANAGEMENT OF YUGOSLAV INDUSTRIAL ENTERPRISES

By

NIKOLA BALOG

I. PRELIMINARY OBSERVATIONS

1. The status of industrial enterprises, and particularly their relationship to outside factors, varies considerably according to the particular public corporations. With respect to Yugoslavia, this variety stems, *inter alia*, from the fact that the Yugoslav economy is one comprising only public corporations while private enterprise is limited to the narrower sectors of arts and crafts, and the furnishing of various petty services. Private enterprise is also found in a large part of agriculture, but this can be disregarded, considering the nature of the seminar's theme.

The fact that there are only "public" corporations, called in Yugoslavia "enterprises" or "economic organizations (not State organizations), accounts for a different organization of the whole economy, different relationships toward enterprises, etc. It is self-understood that all the factors having major significance for the management of enterprises differ greatly from those found in countries where private ownership of enterprises is the prevailing form and private corporations appear as only one sector of the economy, regardless of the size of that sector. However, there do occur significant points and problems common with the enterprises of such countries. After all, the problems of management of enterprises have very significant similar points and identical features. Consequently exchange of experiences can be of great mutual benefit.

However, Yugoslav methods and experiences are not sufficiently known as yet. As a result, it is difficult to start by stating problems, when there is little familiarity with the fundamental relationships of the national economy. It is proposed, therefore, to review here in some detail the general organizational problems of the Yugoslav economy and the country's economic mechanism, so that the problems of management can be stated in detail and understood in the light of the given relationships.

2. As has been said, the whole property of Yugoslav enterprises is socially owned. Investment of private capital does not exist in any form in the enterprises.

Enterprises are founded, organized and operated in accordance with uniform principles. There are hardly any deviations from those principles, although where they do on occasion occur the deviations can be considerable. Where speaking of a uniform organization, the general organization

* Dr. Balog is Professor at the University of Beograd and Assistant State Secretary of the Federal Executive Council of Yugoslavia.

and sphere of action of the managing organs of enterprises is understood, not the internal organization, since the latter is not in any case subject to regulation by the State. Consequently no such variations occur as are frequently observed in some other countries, notably the Western ones, *viz.* that upon nationalization or the founding of a public corporation the managing methods, the degree of centralization, the jurisdiction of the organs, the financing, etc. are separately determined for each branch or individual enterprise. In principle in Yugoslavia all enterprises have identical relationships toward the State, that is to say, toward its central organs, as well as toward local organs, such as the towns and the communes, to which latter a special importance is attached in Yugoslavia. This principle of equality in the treatment of enterprises holds not only for the administrative relationships toward enterprises, in the broader Western sense of the word, but also for their financial relationships, their tax obligations and their treatment in the general economic plans.

Such a principle of uniform status for enterprises does not signify, though, that no special attention is accorded to certain enterprises which command a particular importance for the country's economic development. Although all the regulative measures of the State and the general relationships equally apply to them, in actual practice they enjoy greater individual attention directed toward the elimination of their difficulties, and occasionally special measures are undertaken in regard to their position. Such an attitude is logical, and it is by no means unique to Yugoslavia. From a particular point of view, and regardless of the form of ownership and the social system, the problems of the most significant enterprises are the concern of the State as well and the subject of different actions. However, such an exceptional attitude does not affect the basic principle of identical attitude toward all industrial and other enterprises.

In such relationships, Yugoslav enterprises appear, consistently and without exception, as economic and legal entities, as legal persons, possessing all the qualities of independent organizations. They are independently free to organize their production, market their products, realize an income in accordance with the market conditions, allocate their income, after payment of tax and contributions, to salaries and funds; in principle independently establish the prices of their products and maintenance and investments are also effected by them independently from their funds. Industrial and other production and commercial enterprises are independent in their export and import operations, subject to fulfilment of the statutory conditions.

This independence of enterprises relies on management by their own working collectives, *i.e.*, the workers and office employees engaged by the enterprises. This, in fact, represents an integral principle in this country; integral from two angles: (*a*) that the Constitution entirely prohibits enterprises which are not managed by the workers and office employees; and (*b*) that enterprises are exclusively managed by their own workers and office employees.

In view of the independence of enterprises and their being managed by the workers, the property of Yugoslav enterprises is socially owned. The State may not perform any act of disposal regarding the property of enterprises, all the rights of disposal being vested in the enterprises themselves, within the law.

3. Production with the aid of socially owned means of production can only be pursued rationally and efficiently by enterprises if they are able to secure day by day their direct material interest through such management. Hence, the material interest of enterprises to achieve the best results in production and productivity represents one of the fundamental components of the economic methods. The material interest of these enterprises is two-fold. On the one hand, achievement of the best results has an impact on an enterprise as a whole by increasing the funds at its free disposal; and on the other hand, an individual impact is produced by raising the

personal income of the workers and office employees commensurate with the results attained in production and operation.

4. Under existing conditions, the material interest, *i.e.*, the creation of the highest income, can best be safeguarded through the market economy. This at the same time indicates that the enterprises under review are producers of goods for the market, where they carry on an exchange of commodities. It is superfluous to stress that such a mechanism presupposes the already described independence of enterprises as regards the selection of production, free exchange of goods, freely contracted prices and mutual competition of enterprises to achieve the highest income on the most favourable terms. In principle, the market economy necessarily brings out all the basic characteristics of such an economic method, *viz.*, supply and demand and price movement as regulators of production; the value realized on the market as the measure of the social usefulness and productivity of labour; the principle of lucrativeness, which is mirrored in the ratio of the value realized to the production costs of the goods and the cost of development of productive forces; the formation of income under the influence of all the circumstances influencing prices; the action of the foreign market.

5. The Yugoslav economic system has to be viewed from the standpoint of the planned co-ordination and guidance of economic development, *viz.* a conscious effort to cause the economy to develop by achieving particular aims. The planned guidance of the economy on the basis of social ownership is mirrored by the possibility of safeguarding balanced development by guiding production and the indispensable concentration of assets. In fact, the combination of what on the surface appear to be contradictory elements—the market and planning—provides a picture of the essential part of the Yugoslav economic system. The market by itself cannot solve the tasks of balanced movement and the quickest pace of development unless its action is guided and its essential points channelled. In this system, planning forms the basic element of social intervention.

In connection with this problem, the question arises where the limit of the guidance or the range of the planning is, and by that token where the limit of the free market is. The trend toward overall planning and a firm envisioning of development (in larger or smaller detail) harbours a danger of reducing the market to a very restricted level with respect to initiative and freedom of action for the enterprises. At the same time events can make such a plan unrealistic. As a result, planning should rely on the *indispensable minimum* of social intervention so as to encourage the quickest possible rate of economic development. The Yugoslav planning method, therefore, is designed to schedule economic development for a particular period of time, and to influence all the economic factors, by means of economic and legal instruments, toward the fulfilment of the plan. At the same time the plan as a rule does not establish the administrative obligations of individual enterprises but relies on their economic interest, which inevitably leads them toward the fulfilment of the economic plans established on the part of the social community. The economic plan, by influencing the distribution of the national income and the market, puts the enterprises in a particular objective situation, which in its turn causes enterprises to proceed in accordance with the directive and provisions of the social plan.

It is clear that the relationship of the social plan to the market is not absolute and established for all time. The gauging of that mutual relationship depends on a series of factors. In this there is an essential orientation in Yugoslavia to strengthen, within the unified social plan which serves to safeguard the most rational relationships in the economy, not only the independence of enterprises, but the economic social role of the producers.

Of course, these preliminary observations cannot exhaust the subject of the institutional development of the Yugoslav economy, nor had it been proposed to do so. Actually, the intent of these observations is only to afford to those attending the seminar a most general survey of the most important elements of Yugoslavia's economic system to enable them to

grasp the extensive range of the problems of management of industrial enterprises there.

As with the Scandinavian paper, the present study can only be regarded as being offered without any desire or expectation of encompassing all problems of management.

II. GOALS FOR MANAGEMENT

6. When it is remembered that Yugoslav industrial enterprises are producing for the market and that they are fully concerned with the material success of their operations, it is obvious that the goal of every industrial enterprise is to realize a maximum income. And that in fact is the goal of management as well.

However, there might arise some misconception about that goal unless we added at once two points. First, fulfilment of the tasks set by society forms a component equivalent in importance to the realization of the largest income; and second, income is realized in the first place by increasing productivity and decreasing production costs.

The purpose of an industrial enterprise is established by the act relating to its foundation. Such an act does not comprise a detailed description of the enterprise's aims, the subject of its operation being established in general terms. On the other hand, in accordance with current and long-term social plans, an industrial enterprise may have a particular orientation with respect to the level of production foreseen for its branch of the economy and also for any other branches for whose needs the enterprise is producing.

The question arises whether the purpose of enterprises is duly traced by those two lines, one of which is a direct one, relating as it does to industrial enterprises alone (the purpose as stated in the foundation act), and the second of which is constituted by the social plan and only indirectly affects an enterprise.

From the producing and commercial point of view, the purpose is sufficiently stated. It is broad enough for the free action of enterprises in accordance with the market requirements, and definite enough to satisfy the needs of the general planned guidance of the economy.

However, the purpose as stated in the founding act has no absolute force for an enterprise. Besides that purpose, an enterprise is free also to carry on other production, subject to compliance with the statutory technical stipulations.

As has been pointed out, the planned previsions relate to the whole economic branch and do not represent a legal obligation for individual enterprises inside a branch. Therefore, such a planned scheduling of production and its level in the country, and the possibility afforded for placing particular categories of goods, can serve for an enterprise as only a most general orientation. However, a series of known factors determine how well an enterprise will do on the market with its production. In fine, the Yugoslav economy as a whole is not interested as to how an individual enterprise will achieve its production, but that the planned targets be achieved as a whole by the various enterprises of a particular branch. The enterprises, again, guided by their material interests, and in mutual competition, are placed in an objective situation to proceed toward the fulfilment of the general previsions of the social plan.

Therefore, the enterprises have a general orientation for their production, they are familiar with the tasks, and that enables them to achieve the results expected of them by the social community.

7. The above provides but an indirect and perhaps insufficiently precise answer to the question of the goals of management in principle, if not in the technical sense.

Public corporations unquestionably are founded for the carrying out of a particular task. Especially in a planned economy this principle is exceptionally important. The possibility of choosing aims and concentrating on the means toward attainment of them is in fact what distinguishes a planned economy. That is the social aspect of the matter.

However, once investment has been made and an enterprise founded, it has to achieve those aims on the basis of its economic interests and its own initiative. According to the Yugoslav conception, an enterprise should be independent enough to realize its aims on the basis of commercial methods, with due regard for social interests. Production and realization of income on the basis of sound commercial principles and the carrying out of the established aims represent two aspects of the same matter. For another thing, it is superfluous to mention that it is upon the income of enterprises that the national income as a whole also depends. Creation of that income and its constant increase is in the interest of the whole society, and also of each enterprise. This parallelism of the general and individual interests vests an enterprise with special moral qualifications for realizing an income.

However, the income of enterprises can be the product of a range of factors. Besides resulting from a reduction of production costs and from increased productivity, income can also accrue from the situation on the home market and the action of the international market. An enterprise may enjoy an exceptionally auspicious position by virtue of its position within the country—as the exclusive producer of particular types of goods, for example, or by benefiting by a specially favourable market for its products—in which cases, "without its own merit" and striving, it can obtain considerably higher prices for its products than is their "normal" price.

The combating of such "non-commercial" conditions belongs primarily within State jurisdiction. To do so, various instruments are available : price regulation, taxation, financial and banking instruments, the methods of regulating foreign trade, and so on. The existence of social ownership of the means of production, as well as planning for economic development on a large scale, makes for at least the partial suppression of such phenomena.

It is pertinent to mention that in the Yugoslav economic system no measures are undertaken by the State in relation to individual enterprises. Instead, all measures apply to the whole economy or to the whole branch concerned.

Individual interventions of the central State organs, the provision of useful measure for the work of industrial enterprises, a closer definition of their finance and production, a more direct appraisal of or a more direct influence upon production costs, determination of or consultation on sales policy, and other similar considerations all call for an appropriate organization of the governmental administration. Especially where the entire industry consists of public corporations such an organizing of the central organs,—*i.e.*, organizing toward the performance of all the stated tasks, as well as the splitting up or concretization of the planned tasks as applied to single enterprises,—has the consequence, according to past Yugoslav experience, of the State's bureaucratization. In such a case the State organs do not confine themselves just to delicate understanding and consultation with the management of an enterprise, but interfere in the relationships of an enterprise, thereby in effect ruining its independence. Responsibility for management passes then to the State organs. Generally speaking, a new process thus beings which from the economic point of view must conduce to disruptions and which has even considerably graver consequences from the social viewpoint.

Such relationships had appeared, at an early stage of the present Yugoslav economy but were soon eliminated as being economically and socially harmful to the principles and long-term methods of management of the economy.

NOTES

As a result, intervention of the kind described on the part of the central organs in relation to *individual* enterprises are generally non-existent in Yugoslav practice. Exceptionally, one should bear in mind what has been said in Point 2, Paragraph 3, of the present paper.

8. As has been pointed out above, even though the State has various possibilities at its disposal for controlling the manifestations which can be regarded as negative from the social point of view, the management of an enterprise is not exempted from running it in a way such as to be socially useful. What the line of social usefulness is should be known to an enterprise on the basis of the general economic policy laid down in the social plan, which line, though, is not legally binding for an enterprise and does not involve any legal sanctions in case of non-compliance. This is not particularly important, either, for an enterprise is well aware that the social community expects of it a qualitative and maximum production to satisfy the needs of the consumers. Likewise it is aware of being expected to calculate its costs and include profit, and also to price its products in accordance with the durable market trends (not momentary movements). It is a generally familiar fact that enterprises are required to carry on production at least cost, with maximum productivity, and with as little manpower as possible. Those, in the main, are the absolute economic principles in this country, and it is up to the enterprises to realize them. It is not considered that an enterprise should be an organization to solve unemployment by amassing manpower, nor is an enterprise any kind of social institution. As a solid economic body, an enterprise is not to take account of such non-economic considerations.

Enterprises have their economic funds and funds of a social character available meeting the statutory tax levy and contributions (or their "social obligations", as they are termed). Form that remaining income, called net receipts, an enterprise pays its workers and office employees. Incidentally, the obligations toward the social community were established in relative amounts. Thus enterprises are most concerned to realize the highest income, or net receipts, which they allocate *independently* to salaries, economic funds and the social expenditure fund (or the "common consumption fund", as it is termed).

However, in case the income or net receipts are not the outcome of the workers and employees own effort, then such an enterprise has no authority to allocate the relevant part of the net receipts to salaries and the social fund, but exclusively to the economic funds (the basic assets fund, the working assets fund, and the reserve fund). An enterprise itself appraises the degree of its striving, *viz.* the part of the net receipts which had been realized through own effort and the part which had accrued from the market movements. Here there exist specific ratios, as will be shown further on.

Accordingly, the mechanism of distribution of the income spurs an enterprise on to make maximum efforts in order to realize the highest amount of income on the basis of productivity while at the same time it does not discourage it from realizing the income warranted by the market conditions (of course, in so far as there are no State price controls).

Consequently, in addition to what has been said, it is in the interest of society that an enterprise practice remuneration of its workers and office employees in accordance with the success of the enterprise and their personal success. In other words, there must be no high and low salaries, but remuneration according to the combination of general and individual success. That principle, which is at the base of the Yugoslav economic and social system, has been termed remuneration according to work.

A series of problems occur in this context, but they are beyond the scope of this paper. It is pertinent to mention only that those problems involve the objective factors, such as salaries, which can play a significant role in the formation of the income, in individual enterprises and affect the mutual ratios of the salaries of the workers and office employees of *different* enterprises which find themselves in varying economic situations. However, in those domains there exist significant all-society instruments which serve

to eliminate the effect of the objective factors on the salaries, beside the stated obligation of an enterprise itself not to include in the salaries that part of the net receipts which is not the product of the workers and office employees own efforts. Likewise there exist agreements between the labour unions and the producers' associations of particular economic branches regarding the basic criteria of remuneration in enterprises of the same branch.

Lastly, it is not unimportant to mention in this context that possible pay differentials which may be brought about by the objective situation of an enterprise and its policy actually tend, in this phase of development, to promote production and the operation of the enterprise, and therefore represent a positive factor. Such is especially the case in economically undeveloped countries. Later on, though, pay differentials in various enterprises may present a more serious problem if they are not exclusively the result of higher productivity. Therefore, it is indispensable to watch that problem very carefully, which is exactly what is being done in Yugoslavia.

9. Even though social considerations cannot be counted with the aims of operation, they can manifest themselves in the results of an enterprise's activity. For example, an enterprise may not include in its calculations those outlays which are not of a strictly economic character, if the law forbids it (for example, outlays for the training of personnel, and so on). But in this case the law defines the extent of those outlays (as a rule in relative amounts).

However, enterprises are afforded a possibility of utilizing the common consumption fund for social purposes. The degree of this utilization is conditioned in the first place by an enterprise's success in is operations, and in the second place by the policy pursued by an enterprise. An enterprise itself decides whether and in what measure it will make an allocation to the above fund from its net receipts. The decision is conditioned by different needs, the policy of an enterprise, and its maturity. The relevant resources may be utilized by an enterprise to erect housing developments for its workers and office employees, or for health, cultural, sports and other needs. An enterprise may grant loans to its personnel for the purchase of houses or dwelling units, and so on.

Under conditions of workers' management of enterprises, it is obvious that, beside the economic motives, social motives, too, must be in evidence. As a result, even if, for example, layoffs of manpower might be dictated by economic considerations, no automatic action at all is taken such as would be the case in conventional economic enterprises, *i.e.*, by dint of economic laws. An enterprise is far more orientated toward increasing production than toward the layoff of workers. And even if it is not feasible to raise production, social considerations will nevertheless be respected in making the difficult decision to reduce the labour force.

SOME QUESTIONS ABOUT THE MEASUREMENT OF MANAGEMENT

10. This complex issue can be approached from several angles. We shall try to illuminate it from the viewpoint of an enterprise itself and from that of the social community.

First of all, the workers and employees of an enterprise are concerned for its maximum success. Larger success means higher pay, higher economic funds that safeguard a steady future development, and higher non-economic funds that safeguard superior social conditions in connection with their work. Simultaneously they are the managers of enterprises, on behalf of the social community.

Since it is a question here of an economy in which there is a market and mutual competition, there is also a permanent striving to effect improvements in management. Since they do not enjoy special State protection, as is often the case with public corporations in an economy in which private capital is the rule, the working collectives find themselves in a situation where they have to rely on their own resourcefulness and capability in

management. Otherwise, in the absence of those qualities, they can land in a situation similar to bankruptcy.

This situation makes it incumbent upon enterprises to make careful analyses of their work, and this is also required by law. Those analyses are made on the occasion of every settlement between an enterprise and the social community, as a rule every six months and invariably at the end of the year, *i.e.*, in preparing the statement of accounts or the balance-sheet.

Of course, it is difficult to give "recipes" to enterprises regarding objective methods for appraisal of the value of management. As a matter of fact, we have no such recipes in Yugoslavia. For an appraisal of their own management, enterprises first have to eliminate extraneous influences from consideration. This elimination, though not easy, is feasible. Firstly eliminated are all the changes resulting from regulative measures by the State, *e.g.*, changes in the turnover tax, in other taxes and contributions, changes of tariffs, and so on. But elimination of those measures is still not enough to be able to pinpoint the "net" results. It is also indispensable to analyse the effect of the market. For one thing, utilization of the market opportunities must be regarded as a positive criterion in appraisal of the value of management. However, when it comes to establishment of productivity of labour, those movements are apt to dim the picture.

The stated three factors—regulation by the State, the market movements, and productivity—which have a stimulative effect even if they are observed separately, will provide a more or less objective picture of the results of operation.

However, it is not enough to observe only the results of an enterprise as a whole. It is indispensable to observe them also by the component parts of an enterprise (its departments, groups, etc.). In view of the pronounced tendency to pay the workers on the basis of the success of the departments or groups and the personal success of the workers inside those units, measurement of the efficiency of the work of those units forms the basis for such remuneration and is highly useful for establishing the weak points of management.

Of course, it is not the material yield alone that is competent for an appraisal of management, much as it commands first-class importance. As has already been pointed out, fulfilment of the set task has the same value. However, appraisal of the fulfilment of the task is indissolubly bound up with material performance, unless it is a question of magnitudes beyond measurement.

The moral relationship has a prime importance for an appraisal of the fulfilment of the social task by an enterprise. It would be wrong to underrate this moral factor. It is inconceivable that an industrial enterprise might renounce the fulfilment of its social production task even if that involved material sacrifices (the social production task must not be identified with some administratively-established task on the part of a State organ).

For purposes of appraisal of the efficiency of operation, there also exist in all industrial enterprises internal organizational units, the most notable of which are the financial-analysis groups. These play a significant role in connection with analysis of the itemized financial results in accordance with individual elements of costs.

However, industrial enterprises can also retain the services of special organizations for financial research and auditing as well as of technical-economic bureaus specializing in expert research and acting as consultants. The first type of organization is quite numerous. There are twenty of them and they specialize, inter alia, in the organization of economic operations (calculation of production, commercial service, bookkeeping, etc.), in the scientific organization of work, the preparation of investment schemes, the mechanization of office work, filing services, and so on. The bureaus are very few thus far. The usefulness of both types of organization has been proved beyond question, all the more or since they are not under any State

control, but represent consulting agencies whose services are retained and paid for. Also, their services cannot be imposed on industrial enterprises. Consequently the development of those agencies depends on how much their services will be in demand on the part of industrial enterprises. Actual practice has revealed as much. The need for outside appraisal of the financial efficaciousness is appreciated by industrial enterprises, as a result of which a larger number of organizations devoted to such evaluation are operative and are accomplishing their tasks quite well. On the other hand, it its often considered that an industrial enterprise has enough knowledge within its own complex and that external factors can be of little help. This is the basic reason why there are not enough such organizations, which would be indispensable as an adjunct to adequate management of enterprises and an appraisal of their efficiency.

11. Appraisal of the value of management by outsiders is fairly complicated matter. It becomes even more complicated in case the appraisal involves dismissals of managers or changes in the methods of management. In the Yugoslav system it is the enterprise itself, *viz.* its Workers' Council and Managing Board, which concerns itself with its director and top management. As a rule the outside valuers, the State organs, can influence that but indirectly, as will be explained further on.

In the Yugoslav system one must distinguish two types of action as regards the appraisal of management, *viz.* the action pursued by the central organs and that pursued as a rule by local organs, that is to say the communes.

The central organs have valuable statistical data at their disposal which enable them to follow the activities of all enterprises in the country, notably those of each single enterprise. The data gathered are those that can be of interest for an appraisal of the relationships inside the enterprises : 29 elements altogether. Inter alia, the data bear on all the various elements of the gross product, all the funds, investment loans and short-term credits, the income, the net receipts, and so on. These data are classified according to the economic branches and domains to which the enterprises belong. The National Bank, as the unified organism at which all industrial enterprises deposit their funds and through which they transact all their cash operations, organizes this whole service, termed Social Bookkeeping Service. On the basis of these data (six-month and yearly ones), all the organs, from the commune to the Federation, are able to follow the activity of each individual enterprise or economic branch.

The comparisons made have been yielding extraordinary results. However, the data are utilized differently by the central organs, and differently, as a rule, by local organs.

The central organs employ those data as a means of management of the economy. Comparative analyses make it possible to establish the extent of tax burden, the movements of income and net receipts, salaries and funds, and so on, and on that basis can be made the necessary decisions regarding planning for economic development, the stimulus of the system, the reaction of the enterprises or branches to particular State actions, their behaviour in given situations, and so on.

The same data are also used by the central organs to present before the People's Assembly analyses of the situation of individual economic branches and suggest measures for improvement of their position. Thus, for example, the committees of the People's Assembly have examined the position of the Yugoslav electric power industry and produced useful recommendations for its future work. Currently the position of the Yugoslav Railways is being debated and appropriate recommendations will be made.

However, those committees are not dealing with the situation of *single* enterprises within the electric power industry or the railways, but are viewing those branches as a whole, and the recommendations relate but indirectly to the particular enterprises inside those branches.

Although there exist special committees of the People's Assembly on social assets, which committees as a rule consider the adequacy of the utilization of social property, they do not deal with the position of individual industrial enterprises—which number several thousand. However, that matter may be covered in the future proceedings of those committees; the possibility of such consideration is certainly not to be excluded.

It follows, then, that the Federal or central organs hardly go into an appraisal of the management of individual enterprises, unless it is a question of the most significant communities which command an exceptional importance for the economy of the country.

However, there is a different situation when it comes to the local organs, primarily the communes. Having all the necessary data of the Social Bookkeeping Service at their disposal, they carry on appraisal of the working of enterprises singly and on a comparative basis.

First of all, local organs appraise the financial results and the possibility of their improvement. Since the commune gets a share of the tax levy and the contributions of enterprises—which levy and contributions are prescribed exclusively by Federal Law whether in regard to the amount of tax and contribution payable by enterprises or the commune's own share from that revenue—the commune itself is highly concerned financially in the success of the enterprises on its territory. It is interested in having the operating results of enterprises constantly improved.

The commune examines the adequacy of utilization of the assets, the possibilities for improving the efficiency of management, and even itself assists an enterprise as much as possible both in regard to labour, the promotion of workers' training where feasible and warranted, the granting of investment loans, and so on.

The communes pursue various methods in this activity. They utilize the data of the Social Bookkeeping Service and the analyses furnished by the enterprises themselves on the basis of Federal regulations, and the data of their own organs of management. There is no uniform proceeding in the use of the comparative method, the analysis of production costs per unit of product, the analysis of the effectiveness of fresh investments, and similar considerations. Those methods are at present being studied with a view toward the constant improvement of the communes' co-operation with enterprises.

However, an essential importance attaches to the relationship of the commune and other political-territorial units toward an industrial enterprise. The State organs may undertake no direct action. In case they consider that an enterprise is not efficient enough and that possibilities exist for improvement of management, or if they deem that that inadequate dispositions have been made, they can only offer *recommendations* and opinions. They may not issue orders to enterprises, enact individual regulative measures, and so on. The carrying out of a recommendation depends on the enterprise itself. Therefore, whether a recommendation will be put into effect depends on the adequacy of the measures recommended, and also on the extent of the awareness of an enterprise itself of that adequacy.

It goes without saying that the political-territorial units will not issue recommendations concerning the internal organization of the production process. That cannot be the subject of regulation by outside agencies either, but recommendations can be issued toward improvement of the financial results and economical use of assets.

However, there are direct actions which can be undertaken by the commune in relation to the management of an enterprise, but only in event of unlawful operations. That subject will be dealt with in the chapter on the relationship toward the State organs.

13. As can be seen, so far somewhat different relationships have been evolved in Yugoslavia than in other countries to measure the value of

management of industrial enterprises. It is a question of a comparatively young economy and comparatively young industrial enterprises. But that should not be of the essence. The essential point is that industrial production has been growing since 1953—the year when workers' management was introduced—by an average of 11 per cent annually. This year a fourfold production is being marked over 1939. This definitely is a rate of increase which has hardly been excelled anywhere.

In these relationships involving the quality of management of industrial enterprises we have omitted an occasional negligible quantity. The scope of the overall advance of industrial enterprises is so vast, and the actual progress made so remarkable that subtle measurement of management comes second. Nonetheless that does not mean that the matter does not rate attention, from the point of view of lucrativeness, maximum productivity, and the attainment of optimum financial results while fulfilling the production tasks.

III. SOME PROBLEMS OF MANAGEMENT

14. Emergence of industrial enterprises lends a significant characteristic to management. Indeed in case the material conditions of exploitation are not safeguarded at the foundation of industrial enterprises, then, no matter how qualitative, self-government can only mitigate the negative components caused by wrong investments. As a result, the methods of investment making, too, command a great importance. In this, from the point of view of the Yugoslav economy, investment policy represents one of the key problems in the guidance and promotion of industrial production and the economy as a whole rather than of individual types of production alone.

A number of considerations have influenced the Yugoslav system of investment. One of the considerations is to guide and develop the economy, by way of investment policy, in accordance with the economic policy of the country; another consideration is not to have the investments, their type, size and capacity, under the direct management of the State where that influence can be avoided and where it touches upon State-bureaucratic methods; a third consideration is that there should be a money market to an extent which does not hamper the planned guiding of the economy, thus effecting a certain "decentralization" of investments; further, the investor should be materially dependent upon the effectiveness of his investment to the largest possible degree; and lastly, an enterprise should use its own means for new investments, in accordance with its economic capacity.

Those guiding principles for the realization of the investment policy have originated, *inter alia*, from the liquidation of the earlier methods where the State was by far the prevalent investor, where it determined the kinds of investment to be made, their size, the relevant projects and their location, and where it bore the sole responsibility for all that. Despite certain positive aspects, that earlier method also had large weaknesses which were primarily exhibited in a dissonant economic development, in the creation of grave disequilibriums and in the impossibility of co-ordinating all the needs. In the long run, the idea of detailed planning for development by the State proved unrealistic. That former system of investment always carried a danger of bureaucratization of investment policy and of its overwhelming development in accordance with political rather than economic criteria.

However, those principles were abandoned and new ones, described above, were adopted, which, in the main, are implemented in the following way:

—The Federal People's Assembly (the central parliament) determines in its social plan the basic levels of spending on investment, establishing them in aggregate amount and allocating the investment means in global amounts to individual economic domains and branches or to a particular type of production;

—The central parliament establishes the investment projects individually where it is a question of public works or the largest reclamation projects, highways, railways, for where it is a question of the most significant industrial projects like electric plants and the largest projects of the extracting industries. In such cases, the size and the capacity as well as the location and other elements are established, on a basis of profitability by technical, economic and financial experts, upon whom political factors have no statutory influence, although of course a *de facto* influence cannot be excluded;

—On the basis of the lines traced in the social plan, the bank invites bids. Eligible to bid are industrial enterprises and other legal persons, which may be interested on the basis of their investment programme. Loans are granted to those enterprises or legal persons bidding which have proved to be the most profitable and likely to have the most efficient production at lowest cost, which are capable of repaying the loan within the shortest time, and which offer the highest proportion of their own participation in the total amount of the prospective investment. It goes without saying that a prospective investor has to give financial guaranties that he will repay the loan. As a rule such guaranties are furnished by the political-territorial units, and also by the enterprises from their own funds.

—The bank which is to grant the loan examines, through its own experts, the investment programmes to see whether the profitability and effectiveness of the investment have been correctly established and whether all the necessary conditions exist for a particular type of investment, and so on, excluding any political influence from those considerations, which actually represent but a technical issue. Economic policy is concerned with the total amount to be invested in particular projects or types of production. Here the social plan, *i.e.*, the State, is competent. The size, the projects, the location, the efficaciousness of investments belong to the purely technical domain and are the responsibility of the investor, being under the supervision of specialists for the given economic branch or production.

In addition to centralized assets there also exist decentralized ones with the same basic function. The last are held by the communes, towns, districts and people's republics—the political-territorial units—as well as by economic enterprises.

From decentralized assets, in general, investments are made by the same method as described above. Those assets are frequently employed as the self-participation basis for obtaining loans from the centralized assets.

The enterprises' funds also serve, on the basis of a decision by an enterprise itself, for making investments and these assets are frequently employed as a basis to obtain loans from the centralized investment sources or from the decentralized resources held by the political-territorial units.

It can be seen from the above that in the case of investments it is always a matter of the investor's interest in promoting some particular production and that the basic responsibility for the profitability and effectiveness of investment rests on the investor. Every investor will be extraordinarily concerned to attain optimum production at the least cost, not only because the loan has to be repaid to the bank, but because the enterprise will be realizing in its current production an income accordant with the profitability of production.

On the other hand, the social community safeguards planned development by establishing the aggregate levels of expenditure. The extent to which the function of the aggregate amounts will be allocated as to investment or production is conditioned by the needs planned for. Likewise the competition of enterprises and other legal persons to obtain the set resources affords to the community a relative safeguard that the most lucrative investments will be made, and in those domains for which the social community is interested. Thus a place has been given to the monetary market in a measure favouring the planned development of the economy, accompanied in this domain, too, however, by an orientation toward the widest possibilities of independent action by industrial enterprises.

However, the competition alone of enterprises on "the monetary market of investment means" could not satisfy by itself all the social needs, considering that there are economically backward areas in the country which a planned economy cannot neglect as long as those areas exhibit the least possibility of lucrative investment. Special measures are being undertaken for the development of such areas, with due care not to prejudice the general economic criteria as to investment making. This is achieved by enabling the economically undeveloped areas, through grants-in-aid, to obtain loans from the central assets intended for investments, or by establishing the general location of particular types of investment projects which do not directly depend upon definite raw material sources, and generally by canalizing the investment means into such areas in the most reasonable way. For these loans as well bids have to be made by undeveloped areas in mutual competition, from which the developed areas are excluded.

15. Such general solutions of the investment method, consonantly with the bases of the overall economic system, would be incomplete unless one recalled the extraordinarily important technical and economic considerations determinant for investment-making from the social viewpoint. In effect, it is stipulated by law that no investment loan may be granted or work started on an investment project unless there is an investment programme, drawn up by a qualified organization and approved by the appropriate State organ through its experts.

The investment programme has to cover all the points which are necessary for establishment of a social guaranty as to the efficaciousness and lucrativeness of the investment, as well as technical equipment. The investment programme covers the results of research accompanied by an analysis of the raw materials basis; a market analysis and statement of possibilities for placing the products; an analysis of the technological processes; an analysis of the macro-and micro-location; a calculation of the working assets needed, the necessary means according to technological structure and investment terms, as well as the calculation of amortization; the selection of the productive capacity; the price structure of the proposed production; the agreement of the agricultural authority for any projects involving reclamation; an economically-motivated calculation of lucrativeness together with the basic indices; then it provides a graphic representation of the wider and inner location and of the technological processes; the list of the larger building structures; and a list of the principal equipment.

No investment may be entered into without such a programme, no loan can be obtained from the banks without it, nor construction work launched, no matter whether it is a question of an enterprise's own means or those from another source.

Thus there exists a definite social guaranty as regards fixing of adequate size, optimum ratio of costs and investment, and location. The social guaranty occurs precisely through the competition of a number of prospective investors for the same means and the same type of investment programme and their data, it is possible to establish which is the optimum investment in any concrete case from the social viewpoint as well.

Of course, the data may be inaccurate, or they may be coloured with undue optimism just so as to obtain the necessary means. But that is why there exist technical commission charged with checking the accuracy of the data offered. This is not to imply that the preliminary expert appraisal must be infallible. However, within the complex of all the stated factors, in the comparison of the programmes of different investors and their scientific analysis, lies a sufficient, and the maximum possible, social guaranty for the adequacy of the investments. In this the risk borne by the investor in connection with the investment lends a special quality to those investment methods.

16. There is no competition among prospective investors where it is a question of investment in public works, reclamation and improvement

projects, and in those industries which have been listed above (the electric power industry, etc.). The social guaranty of profitability and other optimum solutions lie in the scientific and technical proficiency of the specialists who propose and approve these investment programmes. Elimination of political intervention, the intervention of the authority of the Administration, is a trend which may not necessarily always succeed, but when that influence exists it primarily relates to the location and occasionally the size of the investments. However, the types of investment involving direct establishment of projects on the part of the State should present an exception within the general system of investment, but not in regard to the significance of such investments.

17. Industrial enterprises, through their funds occupy an important place in the province of investment. The appropriate funds which are allocated from the income of enterprises are freely appropriated themselves for new investments, those means account for a substantial part of the total gross investments in the country. At the same time it is to be remembered that sometimes it is difficult to distinguish new investment from spending on replacement of obsolete installations, even though it is a question of "pure" categories from the economic point of view. Very often new investments serve to enlarge installations which are being replaced, so that such replacement also represents a new investment in some measure. It is to be noted that amortization, which otherwise serves for replacement of basic assets, may legally be utilized also for new installations upon decision of an enterprise itself.

The significance of enterprises in regard to expansion of their activity through fresh investments is enhanced by the possibility of pooling the means of enterprises, which subject will be dealt with further on.

In view of the methods of investment, the problem of general planned guidance of investment becomes more delicate in an economy like Yugoslavia's. Solutions have been provided not only through the material interest of industrial enterprises, but through social approval of the investment programmes, as well as the attracting of the available means of the enterprises into joint investment. However, the described methods of guidance were not laid down for all time but are subject to change. For now there is an enormous demand for new investment, which in fact is the natural tendency of any expanding economy. The investment methods safeguard the independence of enterprises in this domain, too, and on the other hand, they serve to safeguard the essential interests of the planned development of industry and the economy. All the more so since the social plan schedules industrial development for a longer period of time. Enterprises and other investors know what branches of the economy or industry have to be promoted for the sake of a harmonious general development. If they fail to gain financial and technical capacity to make the investment by which society safeguards the future, then they themselves will be the ones to bear the consequences. For now there are far more applicants for loans than there are social means or the means of enterprises.

18. The question of personnel has a special importance particularly in an economically undeveloped country. The following observations are offered in that context. The success of new investment is conditioned by capable personnel—such is the old veriety which can never be repeated frequently enough. Every new technological process demands its specialized personnel. As a result, provision was made for investment loans to incorporate also investment for training such personnel. As a rule such outlays form a distinct item. The investor is required to plan in advance for his personnel needs, to find the necessary workers and office employees and determine the possibilities for their training within the country in enterprises pursuing a similar production, or abroad. Very good results have been recorded in sending future specialists to progressive and soundly organised enterprises within Yugoslavia.

However, it is not merely a question of specialized personnel for new technological processes alone, but of skilled technical, economic, financial, administrative, commercial, legal and other personnel whom an enterprise cannot itself train, at least not directly.

It is hardly necessary to add that this question is being accorded the attention it rates, as witness the opening of a range of vocational schools, faculties, and so on, in accordance with the general lines of the social plan, the needs of the enterprises, and the trends of development.

Special attention is being paid to adult education. Enterprises and their joint organizations have been setting up centres to provide workers with practical knowledge. The enterprises themselves select from among their workers and office employees those for further professional practical training. The State, through its local organs provides the basic conditions, giving the initiative for establishment of the centres where this is not initiated by the enterprises themselves or their organizations. With its tax policy the State facilitates the establishment of the centres by approving certain spending as material outlays subject to deduction from tax assessment. Further, the State establishes and ensures the material conditions for the founding of instructors' centres, which serve to help the training with their work. Likewise there is a school for industrial executives which was established with United Nations assistance of material and personnel.

As can be seen, in this domain too the basic responsibility rests on the enterprises and their organizations, which is the only possible way, considering their independence and status in the economy. The social community, from the commune to the Federation, only provides conditions so that the initiative of enterprises may express itself in this respect as well, except, of course, for general education which is within the direct jurisdiction of the State.

19. The personnel policy of enterprises is conducted by an enterprise itself through its highest organs. Factors from outside the enterprise have an influence on the selection of its director only. All other matters—determination of jobs, assignment of personnel, their promotion and dismissal, as well as pay—are the concern exclusively of the appropriate organs inside an enterprise itself and outside factors have no right to interfere. Of course, in this domain there exist significant statutory guarantees and control.

However, at present outside factors have a fairly significant influence on the selection of the director. The director of an enterprise is nominated by a commission composed, on a parity basis, of the representatives of the Workers' Council of the enterprise concerned and of the representatives of the commune. The director is selected on the basis of competitive applications, which are invited on the basis of specific conditions for the position as to technical qualifications, past service in particular posts, testimonials of experience, and so on. The commission nominates from among the applicants the one most largely fulfilling the stipulated conditions. The commune where the relevant enterprise has its seat issues the decision of appointment; the commune is not obligated to accept the candidate proposed by the commission, but in such a case applications are invited anew. Only in case that no appointment can be made even at this second try may the commue appoint a director at the instance of the commission without competitive applications.

Exceptionally, where it is a question of industrial enterprises with a special significance, such a commission includes also the representatives of the Federal Government, the Republican Government or the District, depending on the requirement of the superior organs. In this case, too, an identical appointment procedure is observed. It is to be noted, though, that recourse to such a method of appointment has been made only in a few cases thus far.

The question of the director's appointment rates such a detailed description for two reasons: first, on account of the director's importance

in Yugoslav enterprises, which subject will be considered further below; and second, because the director is the only individual who is not appointed by an enterprise itself, through its top organ.

Such a method of appointing directors has its weaknesses which have drawn criticism in Yugoslavia. It is considered that the influence of outside agencies is unnecessary in appointing a director. The latter is responsible only to the superior organs of an enterprise, anyway. It is considered that this method of appointment of the director is a vestige from the past when he was the only organ of an enterprise and one possessing at the same time the powers of a State organ. Consequently the ultimate solution lies along the line of the director's selection by the top organ of the enterprise.

The position of the director of an enterprise calls for a definite stability of tenure. This is guaranteed to him in necessary measure by the law, which stipulates that a director can be relieved of duty only in specific cases, *viz.* (*a*) if he fails to comply with the prescripts in his work; (*b*) if the enterprise is unable to meet its obligations to the social community; and (*c*) if it is found that there has not been realized that amount of income which could objectively have been realized, or if extra losses have occurred in the operations because of the incapability or negligence of the director.

A proposal to relieve the director of his duties is introduced by the top organ of the enterprise. The proposal is considered by the same commission which is also competent to select a director.

The third reason—(*c*)—for relieving the director of duty seems not precise enough, but it could not be made more precise. An "objective establishment of the possibilities of realization of the income" is required, which can only be arrived at by appraising the effective situation of the enterprise and the director's own capability—and which leads to appraisal of the worth of the management. However, even this is arrived at on the basis of a demand by the top organ of the enterprise which itself has already researched certain negative conclusions.

THE RELATIONSHIPS OF THE STATE ORGANS TO INDUSTRIAL ENTERPRISES

20. Questions involving these relationships have already been considered above. Only the questions of financial relationships and control remain to be dealt with here.

Special significance is attributed to financial relationships. These have been established as they are not merely with the object of adequate taxation, but primarily so as to have the material interests of enterprises manifest themselves in maximum measure. Stimulation of the operations of industrial enterprises is being built up in this very domain.

In approaching this problem one should recall that in Yugoslav industrial enterprises there exists no proprietor on one side and personnel on the other, with resultant contrasting fundamental economic interests between the proprietor with his manager and the factory personnel. The result of those contrasting interests would be "automatic" taxation of the profit by the State. Of course, today all that is more complicated in private enterprises also, as well as in public corporations. Thus generalization is warranted only for purposes of comparison with enterprises of the Yugoslav type, in which there is absolutely no "proprietor's lever" or representation of the proprietor's interests. For this reason, the financial relations with the State (termed "the system of distribution of income in Yugoslavia), from the point of view of allocations toward social obligations, differ essentially from those involving public corporations of any other type. Here the law has to define the resources which are subject to taxation and not merely to determine the method of allocation of these resources. The foregoing reveals the whole delicate

and far-reaching character of the "system of distribution of the total receipts."

In their operation enterprises realize a gross product (total receipts). From the gross product an enterprise meets its material outlays, amortization, the value of the basic assets, interest on the basic assets, interest on the working assets (a kind of tax on "capital" as it were) and the land tax, as well as the turnover tax if this is levied on a given product. The balance represents the income of the enterprise.

The income of an enterprise is subject to taxation in that a "contribution from the income" is payable on it, but this particular levy accounts for a small part of the social revenue compared to the other forms of tax and contribution.

The contribution from income is assessed on the basis of the ratio of the minimum personal income of the workers and office employees to the income of the enterprise. The contribution is levied on a progressive scale. However, subject to this levy is only the margin of income above the minimum personal income of the workers and office employees. The bottom contribution rate equals 20 per cent and the top contribution rate 70 per cent of the margin above the minimum personal income of the workers and office employees.

The amount of the minimum personal income is determined by law, in accordance with the qualifications of the workers and office employees and by economic domains and branches. The established minimum personal income has two functions, *viz.* (*a*) it serves as the basis for tax assessment; and (*b*) the workers and office employees can in no case be paid a salary below the prescribed amount of minimum personal income.

Incidentally, the contribution from income is divided between the commune, the district, the republic and the Federation, on the basis of law and commensurate to the means invested in an enterprise.

The amount of income left after payment of the contribution constitutes the net receipts. The last are allocated by the top organ of the enterprise to the personal income of the workers and office employees and to the enterprise's funds, in the mode described before in this paper. A contribution to the budget (being a kind of tax on salaries) and a contribution for social insurance are payable from the personal income of workers and office employees.

The mechanism of the distribution of the income is based on the following principles:

—Subject to taxation are all the factors influencing the creation of the income, *viz.* "capital" (including a separate levy on fixed and variable capital respectively), market conditions—by way of the turnover tax on the products, through which economic policy is pursued in relation to individual products while also influencing production and the market; through the tax levy on manpower this essential factor of creation of income is influenced also;

—Use of a progressive scale to levy income tax on enterprises serves to equate the income in the measure indispensable to ensure relatively identical conditions of operation of enterprises;

The effects of this system of distribution of income are as follows:

—Material outlays are determined on the basis of the process of production itself. Those outlays are of a given magnitude which unaffected by outside factors, except that the law bars the personal income of the workers and office and the investments from being met by being charged to those outlays.

—The Amortization rate is established by State regulations, on the basis of the value of machinery, buildings, and so on. Incidentally, in Yugoslavia a complete enumeration has been carried out of all the basic

assets of enterprises, by a standard method, and their value once established, State regulations on amortization rates were issued.

—Income is subject to levy only if it has been realized. There is no anticipation of the income of industrial enterprises in the sense of fixing in advance the amount of income an enterprise must realize, nor is this fixed by the social plan as its obligation.

—The right of an enterprise independently to allocate its net receipts to personal income and funds enables it to develop a pay system stimulative for its workers and office employees and necessarily adjusted to the success of the enterprise as a whole. This right of independent allocation of net receipts is of great significance, for in this way responsibility for the personal income of the workers and office employees and for further development of the enterprise through its own resources is transferred to the enterprise itself through its workers' organs of management. The results recorded in practice to date can be considered as satisfactory.

—Through the agency of this system of distribution of income, the interests of the enterprise are served, in that the labour force is reduced, the production costs cut down, productivity raised, and income enhanced —in other words, by realizing a large income, as has been pointed out before. In view of the progressive nature of the contribution from income, the larger the income the higher the contribution becomes. However, at the same time a larger amount of the net receipts is left to the enterprise for allocation to personal income and funds.

—The State organs exercise control only in regard to the lawful application of the regulations. As mentioned before, the State regulations establish the principles and define the concepts of material outlays, amortization, and minimum personal income, providing the basis upon which an enterprise establishes its income and the prescribed taxes and contributions.

State control is organized through the above described Social Bookkeeping Service, which acting through its inspectors examines the lawfulness of the use of social property. This Service operates independently within the complex of the National Bank, through which all industrial enterprises transact their cash operations. In event of illicit action by the Service, enterprises enjoy judical protection.

21. On the basis of their right to net receipts, industrial enterprises create their pay systems, which are established by them through their pay scale.

A pay scale is issued by the top organ of an enterprise, This labour union and the commune may advance observations on it. In case the top organ of the enterprise does not adopt the observations, the parts of the pay scale which are at issue are put before a tripartite arbitration commission, composed of representatives of the union, the enterprise, and the State organ, whose decision is final. The number of such cases which have been recorded in the country equals only about 1.5 per cent of the total number of pay scales.

The pay scales set the personal income of the employees in accordance with the jobs and the methods of remuneration, *viz.* by production standards, by performance, by unit of product, by economic units, plus bonuses for executive personnel, rewards etc. In all industrial enterprises the assessment of jobs is made by a uniform method, which has a significant effect on the pay scale too. As a result, the pay methods depend upon an enterprise itself, yet this area is not beyond range of social influence.

One important measure of social influence is the pay scale agreement. This agreement is issued by the central Trade Union bodies in accord with the central industrial trade associations for individual economic branches. Such an agreement determines only the basic minimum relationships.

Another measure of social influence involves the formation of personal income inside enterprises. Since the success of individuals in an enterprise depends on the success of the enterprise as a whole, real pay of the workers and office employees may range considerably above the pay scale rates, not only because a worker or office employee has fulfilled his production task—by production standards, by unit of product etc.—on the basis of his superior effort, resourcefulness and proficiency, but also because the enterprise has realized a larger amount of net receipts.

It has already been said that if larger net receipts should accrue the salaries of workers and office employees may be raised, provided that the receipts are larger thanks to the efforts of the collective working group.

On this particular point there is social influence to ensure that no irregularities should occur in individual enterprises. In this context the commune may make recommendations to an enterprise toward increasing productivity. The recommendations entail no sanctions, being purely of a moral nature, and an enterprise does not necessarily have to abide by them. Of course, this relationship can give rise to problems which can be overcome only with time.

The internal methods of remuneration are a field in which very significant problems are manifesting themselves, and which largely enter into the domain of the scientific organization of work, being attended by all those difficulties which are indicated by scientific literature.

2 . The price policy might be of special interest. In general the enterprises themselves fix the prices of their products and services, consonant with the existing economic mechanism, the market mechanism, and the status of the enterprises. Thus an enterprise calculates its prices in accordance with those elements, making the profit warranted by the market conditions.

However, the State controls prices in accordance with the market situation and the needs of the social plan, *viz.* when the market situation so demands.

State control is manifest in the establishment of *ceiling* sale prices of particular products, including as a rule the most important raw materials (without discrimination between the enterprises), and in the special rights of the State organ (the Federal Price Office) involving control of *increasing* prices of particular products. This last control is operated as follows. The enterprise intending to raise the prices of any of its products which are comprised in the State list required to notify the Price Office accordingly. If there is no response from the Office within a specified time, the enterprise may increase the prices as per its notification. On the other hand, the Office itself may demand a price increase, but only a few such cases have been recorded in practice. Actually, this control amounts far more to observation of price movements than to *de facto* State control.

This type of control had been introduced due to current movements on the market. It will be maintained as long as necessary, the fact showing that they do not represent a basic method of control. The fundamental principle concerning prices remains based on the market mechanism, involving a market which is guided in the necessary measure and subject to the action of the social plan.

NON-GOVERNMENTAL RELATIONSHIPS

23. We shall cite only a few relationships with a significant function in the organization of production in Yugoslavia.

On the basis of law, industrial enterprises are affiliated with the Chamber of Industry, while industrial enterprises from particular economic branches are affiliated with their trade associations.

In view of the fact that the State provides the basic material and organizational conditions for the promotion of production, and in view

of the fact that this promotion, technically speaking, does not belong within the sphere of action of the State, that task actually forms the responsibility of the producers or enterprises themselves and their associations such as chambers and trade associations.

Consequently those non-governmental organizations—chambers of industrial trade associations—have the basic task of encouraging industrial enterprises toward better organization of production and operation, and of stimulating co-operation, joint production, specialization, adoption of scientific methods, and similar considerations. In particular, a chamber looks to the Government as well. It puts the demands of industrial enterprises before the State organs, considers the drafts of laws, economic measures and, last but not least, the draft of the social plan.

In general the conclusions of the chambers and trade associations are not binding on industrial enterprises, but are carried out by the members of the chamber or association on a voluntary basis.

The Chamber of Industry and the industrial trade associations have become strong economic bodies. Theirs is a major influence on the work of enterprises. They are gradually creating their institutes, bureaus and other organizations which are helping enterprises with their work, while also assisting the Government in the taking of various actions.

It goes without saying that there is a considerable amount of co-operation between the Government and the Chamber and trade associations. Through the agency of this co-operation, the Government is able to evaluate in advance the measures it intends to take and, for another matter, it is also kept informed about economic developments with a major interest for economic movements and results.

Finally it is pertinent to note that the chambers and trade associations are not agencies of business in the sense that they may themselves conclude contracts, undertake business operations and similar transactions.

ORGANIZATION OF THE MANAGEMENT OF ENTERPRISES

24. In every Yogoslav enterprise there are three organs: the Workers' Council, the Managing Board, and the Director of the enterprise.

The Workers' Council is elected by all the workers and office employees who are of age, by direct and secret vote. The workers and office employees who have polled the largest number of votes become elected to the Workers' Council, regardless of what voting ticket they were elected on.

The Workers' Council, which numbers from 15 to 60 members, elects the Managing Board, while the Director is appointed by the method described earlier.

Workers from the basic activity of the enterprise must account for at least two-thirds of the members of the Workers' Council.

The term of office of the Workers' Council members is two years.

The Workers' Council is the top organ of the enterprise. It conducts the economic policy of the enterprise, issues all the fundamental acts of the enterprise, its statute, pay scale, rules on labour relations, protection at work, etc. The Workers' Council allocates the net receipts, issues the economic (annual and long-term) plans, establishes the balance-sheets and the statement of accounts. It also conducts the personnel policy in a broad sense.

The Managing Board, which numbers from 3 to 15 members, manages the enterprise. It issues the more important resolutions relating to operations and prepares all proposals for the Workers' Council. It appoints, at the instance of the Director, the executive employees of the enterprise. It deals with complaints against the Director's decisions or those of the commissions for engagement of workers, and with similar

matters. Also, the Managing Board controls the work of the enterprise's Director.

The Director of the enterprise organizes the production or work process. He heads the whole administration, acting also as the disciplinary chief in so far as any of the relevant powers were not delegated to the disciplinary commissions, which deal with the graver offences.

The Director represents the enterprise before the State organs and the law courts. He signs on behalf of the enterprise, and he also makes all contracts.

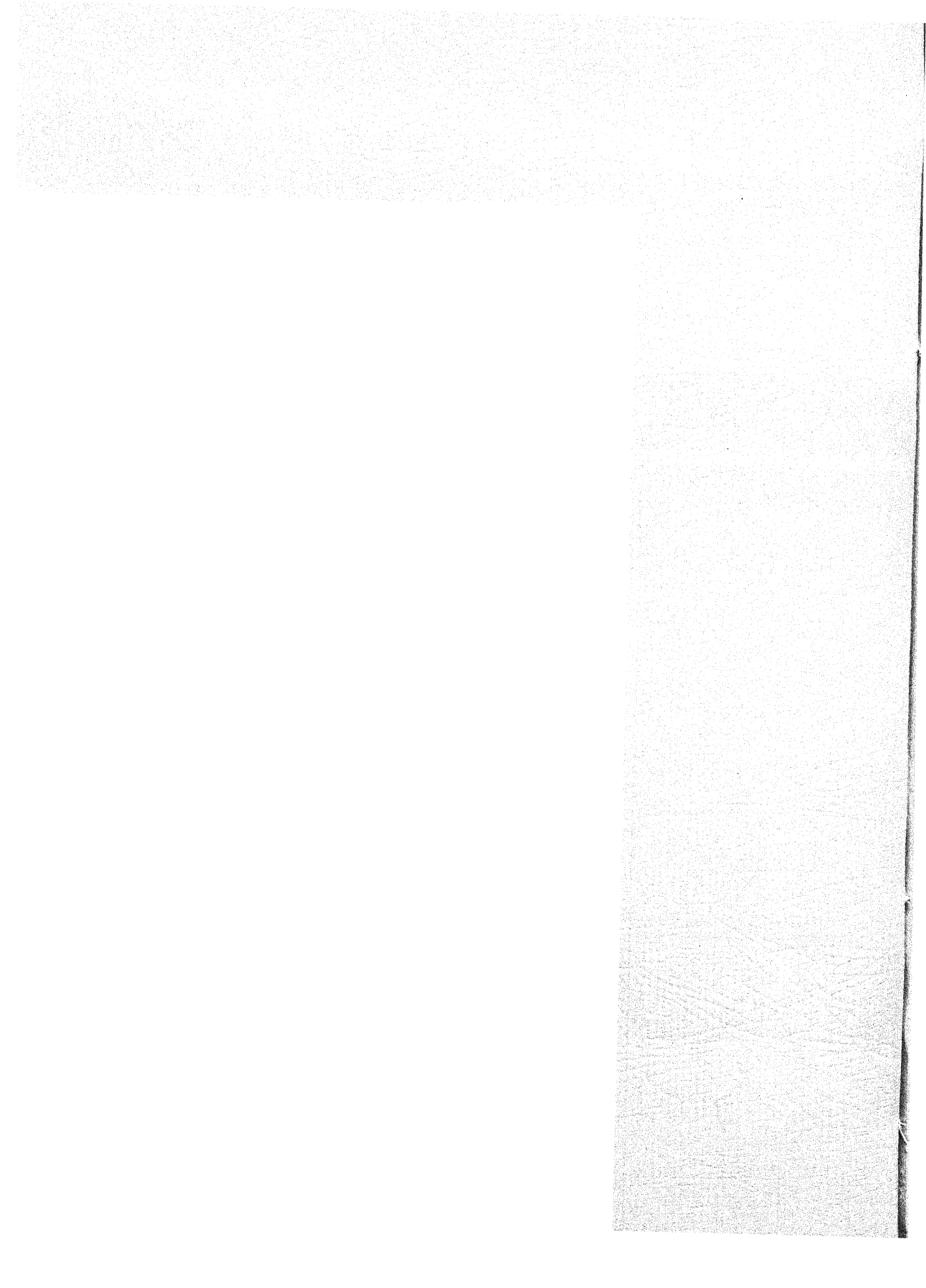
The Director may delegate his powers to his assistants or to a number of office employees.

Such, briefly, is the internal organization of management.

However, in an enterprise there also exists a collegium of technicians, composed of the top executive employees, which acts as an auxiliary and advisory organ to the Director of the enterprise.

The Director has the right and obligation to prevent enforcement of any resolutions of the Workers' Council and the Managing Board which are against the law. In all other cases he is obligated to put into effect the resolutions of those organs.

These relationships may give rise to specific problems. One organ might encroach on the jurisdiction of the other organs. The Director's authority might loom so large as to make his influence decisive. However, not all the problems which are called into being by life can be solved by the Law, which establishes the competencies of an enterprise's organ in outline. Again such problems are solved precisely by life itself, by practice, and by a scientific organization of work.



SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

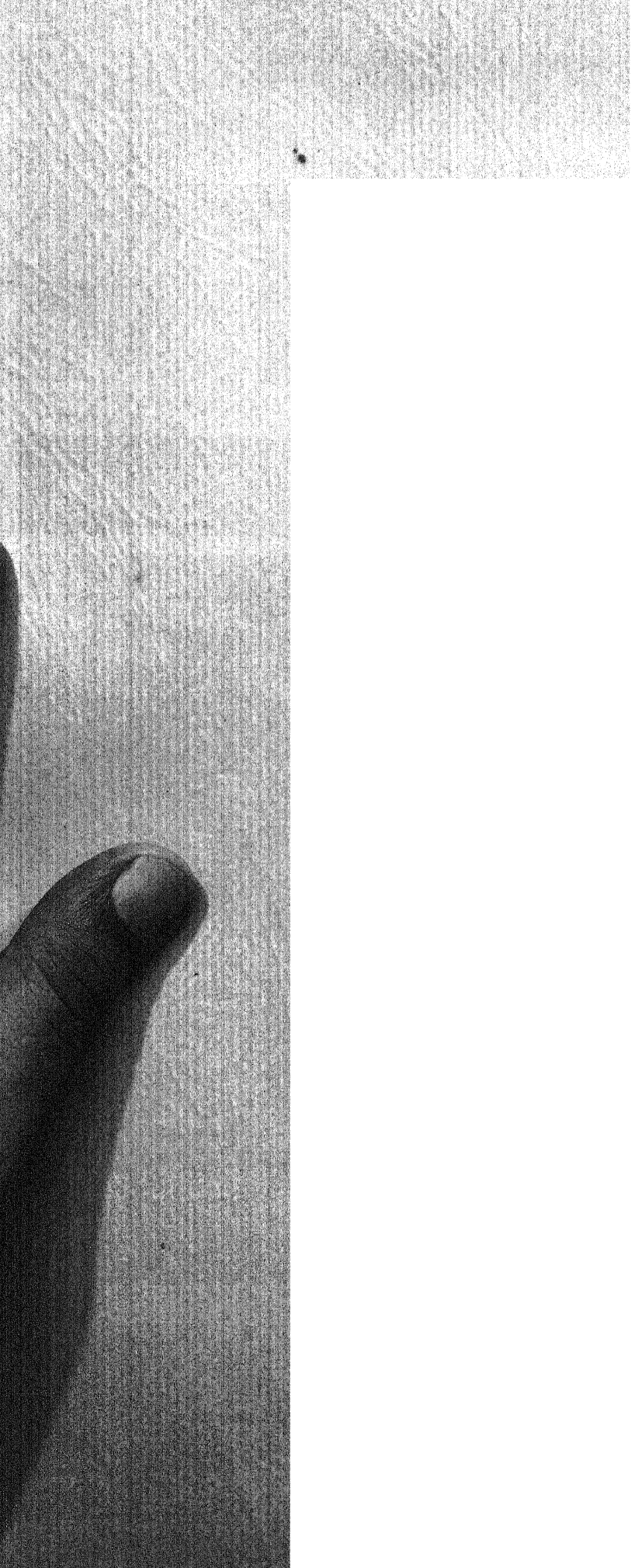
BASIC PRINCIPLES AND TASKS IN THE MANAGEMENT OF INDUSTRIAL PRODUCTION IN THE USSR

BY

S. S. NOVOZHILOV

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Information Paper No. 64



BASIC PRINCIPLES AND TASKS IN THE MANAGEMENT OF INDUSTRIAL PRODUCTION IN THE USSR

By

S. S. NOVOZHILOV

I. DEVELOPMENT OF THE SOVIET SYSTEM OF INDUSTRIAL MANAGEMENT

Questions in the organization of industrial management have always been exceptionally important in the economic life of the USSR. Immediately after the October Socialist Revolution there arose the necessity of creating a new, Soviet system of managing the national economy, industry and separate socialist enterprises. One of the first steps in this direction was the implementation of the ideas put forward by V. I. Lenin on control over production and distribution of the product. The workers' control played a great role in preparing the nationalization of capitalist industry, the handing over of enterprises from private ownership to state ownership, as public property. For the management of the nationalized enterprises and planned organization of the socialist economy in December 1917 the Soviet Governments instituted the Higher Council of National Economy (VSNKh), and locally, regional, guberniya and uyezd Councils of National Economy (Sovnarkhozes). After the formation of the Union of Soviet Socialist Republics Higher Councils of the Union Republics were set up.

The first bodies for the management of the state (nationalized) enterprises were the elected factory and works managements, which managed production collectively. Subsequently, as qualified staffs were brought forward and developed from among the people the transition from elected bodies to executives appointed on the principle of one-man management took place.

In order to mobilize all the country's economic resources for the needs of the front during the period of foreign military intervention and civil war all enterprises were subordinated directly to the head administrations of the Higher Council of National Economy, which were the main links in industrial management, carrying out the centralized supply of enterprises with material resources and the distribution of their products.

After the end of the civil war industrial mangement was reorganized on principles of economic accountancy and enterprises were combined into trusts, which then became the main links in industrial management.

Industrialization with priority development of heavy industry was adopted as the country's general line of economic development.

Special emphasis was given to stronger planned guidance, to planned discipline in the work of all state enterprises and to the observance of the most rigorous economy in state expenditure so as to systematically build up accumulation to pay for the industrialization.

NOTES

Beginning with 1929 the development of Soviet industry was guided by the five-year plans.

To ensure the country's industrialization and economic independence the first five-year plan envisaged priority capital investment into the industry producing the means of production, which was to receive 78 per cent of all the investments allotted to industry.

The creation of a large number of new industrial enterprises and even new branches of industry during the five-year plans necessitated the reorganization of the higher industrial management bodies. In 1932 the Higher Council of National Economy was divided into a number of industrial People's Commissariats, which were subsequently repeatedly broken down to improve the leadership of the rapidly developing industry. In 1946 the People's Commissariats were converted into specialized branch ministries : the coal industry, iron and steel and non-ferrous metal industries, oil industry, various machine-building, textile, light and food industries, and so on. The People's Commissariats and later the ministries played an important role in shaping important branches of industry, organizing new production, ensuring technical progress and strengthening the enterprises economically.

By 1957 there were over 200,000 industrial enterprises in the USSR with 100,000 more under construction. It had become necessary to change the existing organizational forms of management of industry and construction for the system of territorial management. Instead of ministries the basic administrative units now were National Economy Councils (Sovnarkhozes), organized according to the economic areas. As distinct from the Sovnarkhozes of the earlier period in the Soviet industry's development when they had under them only enterprises of local significance, the present ones have under them enterprises of Union and Union Republic significance. Over two years of work under the new form of industrial management in conditions obtaining in our country have proved its viability and great economic advantages over the former system of branch ministries.

Thus *the forms and methods of industrial management in the USSR improve continually, changing according to the conditions at each stage of its development in order to ensure a rapid growth of production and improvement in the technical and economic indices of the work of enterprises.*

But irrespective of changes in the concrete forms of industrial management organization in the USSR, management is always based on the following basic principles :

(1) State planning which ensures concentration of resources to carry out the most important economic tasks for the country as a whole;
(2) Combination of profitableness of all state industry with that of separate state enterprises;
(3) Uninterrupted technical progress in industry;
(4) Democratic centralism in management;
(5) Economic accountancy and material incentive.

The principles listed also determine the most important tasks which are constantly the object of attention of economic leaders.

Thus, *consideration of the basic principles in the management of industrial production is important also for understanding the tasks in that field.*

II. STATE PLANNING WHICH ENSURES CONCENTRATION OF RESOURCES TO CARRY OUT THE MOST IMPORTANT ECONOMIC TASKS FOR THE COUNTRY AS A WHOLE

The main principle underlying the structure of the Soviet system of industrial management is the socialization of all important means of production, which in the Soviet Union are State socialist property, that is, the property of the whole nation. Forty-two-year experience of economic construction in the USSR is convincing proof that the state management

is the most effective form of direction of industrial production and its development, which ensures the successful fulfilment of the impressive tasks of the country's economic transformation on the basis of modern technique and steady raising of the people's well-being.

State planning and the concentration of all the material and financial resources in the hands of the socialist state provide the possibility for their rational distribution and most expedient utilization to fulfil those tasks which are most important for the whole country under the conditions of the stage of its development in which it is.

It is precisely thanks to the concentration of power and forces and to their planned utilization that the industrialization of the USSR was carried out in a historically very short time and that a formerly agrarian country was transformed into a mighty industrial power capable of producing with its own resources any means of production.

As already mentioned, the industrialization of the USSR was characterized by the priority development of the heavy industry, especially of machine-building, for only in that way could the technical base be provided for all the other branches as well as for a radical reorganization and cooperation of agriculture to ensure an unfailing upsurge in the people's well-being. While the gross industrial product as a whole was 36 times as great in 1958 as in 1913, the output of means of production was 83 times as large and the production of the machine-building and metal working branches 240 times as large, and that of the chemical industry and power production, 100 times as large. On this basis it was possible to go over to high development rates, along such highways of technical progress in industry as mechanization, automation, electrification and extensive chemicalization of production.

For the volume of industrial production the USSR is at present first in Europe and second in the world.

The rapid development of the country's national economy makes for a steady growth of the living standards. Unemployment, the workers' scourge in the capitalist countries, has been done away with in the USSR once and for all. A huge housing programme is well underway, in the country, there are more and more goods in the shops, public health and cultural needs are receiving ever increasing attention. By the end of 1960 all the workers and office-employees will be transferred to a seven-hour working day at higher wages.

The necessity for a sharp rise in agriculture after the war in order to continue to improve the people's well-being and to develop the light and food industries demanded forced development of agricultural machine building and a considerable increase in the production of mineral fertilizers this was ensured by state planning and the fulfilment of plan assignments by the industrial branches concerned.

A similar example of concentration of resources and forces for fulfilling an urgent task of great economic significance is to be found in the rapid development on major scales of the production of standard parts in concrete which rose in 1958 to nearly 19 million cubic metres. This provided the necessary conditions for the further industrialization of housing and industrial construction and for a sharp rise in building scales together with considerable economy of erection time and of rolled metal and sawn timber.

When planning the distribution of new industrial construction the Soviet State proceeds first of all from the economic expediency and the need of higher development rates for the formerly backward, outlying regions of the country. This can be instanced by the amount of planned capital investments the Kazakh Republic is going to receive between 1959 and 1965, which will be almost twice as much (in comparable prices) as what the whole Soviet national economy received during the first five-year plan. The Kazakh Republic will increase the production of mineral fertilizers and commission new plants producing grain harvesters and elevator equipment as well as new enterprises in the light and food industries. A metallurgical plant will be

completed in 1964 at Karaganda. The plant's favourable conditions of the raw material, fuel and power supply and the high level of its equipment will make its pig iron cost at least 5 per cent less than the country's cheapest, Magnitogorsk pig-iron. The large deposits of natural gas recently discovered in the Central-Asian Republics will be used to develop power and chemical industries there, while the people will benefit from the wide use of this cheap fuel for domestic purposes. Thus, *a highly important principle of state management of industry is planned leadership and the concentration of the material, labour and financial resources for the development of the most important branches of production and the distribution of industry in the interests of the whole economy and the material well-being of the Soviet people.*

III. COMBINATION OF PROFITABLENESS OF ALL STATE INDUSTRY WITH THAT OF SEPARATE STATE ENTERPRISES

Acceleration of development in new branches of industrial production demands, as a rule, considerable capital investments, which are obtained from accumulation that the state has at its disposal in the form of the incomes from other branches and enterprises which are already prospering.

In the initial stage of its work, a new enterprise may in certain cases be unprofitable for a short time and may need state subsidies, since the fixed price of its output does not compensate for the actual expenses occurred in production. This was the case in the earlier stages of the development of our industry, particularly when the first models of tractors and agricultural instruments were going into production.

Temporary state subsidies to an enterprise are amply reimbursed as regards the whole national economy out of the public labour that the enterprise's output of the means of production helps to save.

That is why from the point of view of the whole economy and the prospects of its development in the near future, organization of such productions is justified and necessary economically.

Later, as new productions are mastered, the steady growth of labour productivity goes on naturally, as well as reduction in the cost of the product. If we take the industry of the USSR as a whole the rise in the productivity of labour (*i.e.*, in gross output per worker) was : in the first five-year plan 41%, in the second 32%, for three pre-war years of the third 33%, for the war years and the fourth five-year plan 37%, for the fifth five-year plan 44%. It is based first of all on the increase in power supply, the application of new techniques and more economical technology, the better organization of production and it leads to reduction in cost of industrial output and more profitable enterprises and thereby, to the growth of accumulation within industry. The rise in profitableness of enterprises and branches of the national economy lead to the growth of accumulation within the national economy, which is a source of further expansion and technical progress in production and of greater people's consumption. For instance, the total economy from the reduction of cost of industrial output during the fifth five-year plan was about 2/3 of the total capital investments. Consequently, state financing of new enterprises and productions pays for itself in the end and compensates the expenses, giving further large sums for greater economic upsurge in the country.

Thus, an important principle in industrial management in the USSR is the systematic combination of economic profitableness which ensures the economic development of the country as with profitableness in the work of separate enterprises based on steadily rising labour productivity and reduction in the cost of production.

IV. UNINTERRUPTED TECHNICAL PROGRESS IN INDUSTRY

The systematic increase in scales of industrial production with improvement of its economic indices is achieved in the USSR on the basis of planned and rapid development of new techniques and their application in accordance with the latest achievements of science.

In the USSR 106,000 engineers were trained in 1958 alone out of a total of 900,000 employed in the national economy at present.

In the USSR the national economy is served by over 3,200 specialized esearch and experimental institutes and laboratories, project and design institutes with their own experimental plants, technological project institutes and other research institutions as well as offices of scientific and technical information and information about advanced experience. These institutions are under the National Economy Councils or governmental or public bodies; they work according to approved thematic plans, and are supplied with the necessary materials and funds. The scientific research institutions are responsible for introducing the results of their work in production and by agreement with enterprises they give practical aid to help them master new techniques. Of great importance in ensuring technical progress are the plant laboratories, experimental workshops and designing offices. The activities of the scientific and technical institutions of different branches are coordinated according to their subordination to the technical administrations of the National Economy Councils, the State Planning Commissions and the specialised committees under the Councils of Ministers of the Union Republics or the USSR state bodies and government organs (the State Scientific and Technical Committee of the Council of Ministers of the USSR, the State Committee for Automation and Machine Building, the State Committee for Radio-electronics, etc.). An important role in scientific and technical progress belongs to the Academy of Sciences of the USSR and the Academics of the Union Republics to the leading scientific institutions and Universities in the country which study the corresponding problems.

The high speeds of technical progress and the speedy application of scientific achievements in the industry of the USSR are also ensured by the extensive development of scientific and technical information and exchange of advanced experience, which places the successes of each enterprise at the disposal of the whole of industry and promotes their mass application.

In the USSR there are published large numbers of scientific and technical journals according to branches, information bulletins, special reviews and reference journals telling not only of Soviet practice but of practice abroad too. There are special institutes which deal with scientific and technical information. Besides, there are regular special seminars, conferences and other forms for spreading scientific and technical achievements.

Recently the USSR has adopted the policy of mechanization of auxiliary processes as well as of the principal processes, of speeding up complex mechanization and automation of production. The realization of these measures has helped to overfulfil the state plan targets for greater labour productivity and lower production costs. For the first nine months of 1959 labour productivity in industry has increased by 8 per cent as compared with the corresponding period in 1958, while lower costs have brought an economy of 7,000 million rubles over and above the planned amount.

Thus, *purposeful organization of the elaboration of scientific and technical problems of industrial development, training of scientific and engineering staffs, and extensive propagation of advanced experience is an integral part of industrial management in the USSR and it ensures high speeds in technical progress.*

V. DEMOCRATIC CENTRALISM IN MANAGEMENT

The organization of industrial management in the USSR is based on the same main principles which determine state leadership in all other branches of economic and cultural construction.

One of the most important principles of Soviet industrial management is democratic centralism, *i.e.*, the combination of centralization of the decision in the most important problems of planned leadership with extensively developed local initiative and autonomy of the lower management links and

of the working people themselves, who, in the final account, ensure the successful carrying out of the state plans.

The major decisions on the development of the national economy are taken by the Communist Party and Soviet Government bodies. Based on these, the State Planning Committee of the USSR in conjunction with the Union Republics draws up the control figures for the development of the national economy, which have force of law only after nation-wide discussion and approval by the Supreme Soviets of the USSR and the Union Republics.

The principle of democratic centralism is implemented at every stage in the development of socialist industry with different forms of industrial management. The present system of industrial management through National Economy Councils ensures further extension of the rights of the Union Republics and the local bodies, at the same time strengthening and completing the state planned leadership of industry.

The creation of the National Economy Councils promotes extensive development of further specialization and co-operation of enterprises, and also their combination, which has a decisive influence on the application of advanced methods such as big serial and mass line production based on progressive technology, complex mechanization and automation of productive sectors, shops and whole enterprises. For example, the Moscow National Economy Council by disbanding 121 industrial shops (among them 60 foundries and 37 shops producing nuts and bolts) and concentrating the production facilities in bigger, and, therefore more profitable, specialized enterprises and shops, has produced more castings by 24,000 tons and more nuts and bolts by 16 per cent, the spare 22,000 sq. m. of shop-space have been and for increasing various other types of production.

Co-operated mutual supplies are effected by enterprises on the basis of the state plan tasks taking into consideration the geographical location of industrial production, so that non-rational, exceptionally distant and duplicate transport is avoided.

In the Soviet conception an enterprise is a collective of working people organized by the socialist state and working to fulfil plan tasks with means of production which are the property of the whole people.

The enterprise is managed by persons who have the trust of the socialist state, are appointed by the leading bodies and have the right of one-man management. This means that their orders are binding on all people working at the enterprise in question and that they have the sole responsibility for taking economic and organizational decisions connected with fulfilling the state plan tasks, for the practical carrying out of those decisions and the results achieved.

Leading appointments in an enterprise are occupied by engineers or people with technical education who have shown their ability in practical work.

The Soviet system of one-man management does not exclude but presupposes as absolutely necessary the active participation of the working-people themselves in industrial management. At the head of the working collective of the enterprise, the director and his administrative assistants work in close contact with the social organizations in the enterprise, which have their elected bodies not only within the framework of the enterprise, but in each shop. They have extensive rights under Soviet law not only in the domain of protection of labour, safety devices, pay, norms of labour and working hours, but also in questions of the fulfilment of the plan, improvement of production and the rational use of resources.

The mutual obligations of the working collective of the enterprise and the administration are defined every year by the collective contracts concluded between the trade unions and the administration of the enterprise.

Standing production councils with the participation of workers, innovators and inventors, technicians, engineers and office-emlployees function

at enterprises for the regular discussion of productive indices and the working out of measures to improve them.

Besides, many enerprises have technical councils which systematically discuss problems relating to the development of production and the introduction of new techniques and technology are based on the voluntary scientific and technical societies.

Plans of work for the current period, progress in their fulfilment and all major measures for improving the technique and organization of production are regularly discussed at general meetings of the workers, and the suggestions put forward by them during the discussion are taken into account in the enterprise's subsequent work.

Mass socialist emulation for the fulfilment and overfulfilment of the output plan and the improvement of the qualitative indices of production is one of the effective ways in which the workers participate in the management of their enterprise.

Thus, *a substantial feature in the management of socialist industry is the organic combination of state leadership and the responsibility of the management for the work of the enterprises with all-round development of the creative initiative of the local bodies and direct participation of the workers and employees in the management of enterprises.*

VI. ECONOMIC ACCOUNTANCY AND MATERIAL INCENTIVE

Economic accountancy in the work of the enterprises is of great significance in the system of management of state industrial enterprises.

The profitableness of an enterprise is an obligatory condition of economic accountancy as well as the best way for providing a material incentive for the enterprise.

The substance of economic accountancy of enterprises consists in their receiving complete economic autonomy; in their relations with other organizations they have the rights of a juridical person with responsibility for contracts concluded, payments and other obligations.

One must hereby bear in mind that economic accountancy in the Soviet enterprises is effected with full guarantee of disposal of produce and of material and technical supply in accordance with the approved plans. On their basis the state disposal organs give enterprises disposal invoices indicating the consumer. Accordingly the enterprises conclude contracts direct for the supply of their produce to certain receivers, defining nomenclature, technical conditions and time of despatch, and also the way of settling accounts. The output of industrial enterprises is realised and paid for according to fixed prices confirmed by the state bodies. In a similar way the enterprises receive raw materials, fuel and other material requisites.

All this precludes conjunctural variations in the domain of trade relations with other enterprises in the purchase of means of production or the disposal of the finished product.

All accounts between enterprises and with the various economic organizations are carried on through the State Bank, where the available funds of enterprises are also concentrated. The Bank is in a position to control the general financial condition of the enterprise, the mirror of all its productive and economic activity.

If an enterprise is filling all its obligations, the State Bank allows it favourable conditions for credit and this encourages the enterprise to be successful in its productive and economic activity.

In the event of fulfilment of the plan and profitableness in its work, the enterprise receives, according to the rules in vigour, the disposal of a portion of its profits. In many branches the enterprise's funds are formed by deducting five per cent of the planned profit and a large part of the profit over and above the plan which it has made during the year. These funds

NOTES

are used for bonuses for the best workers, and also to a great extent for measures to improve labour conditions and living conditions for the whole collective; for rationalization of production, the building of creches, kindergartens, canteens, rest homes, etc. Expenditure of the sums which make up the enterprise's funds are done according to estimates approved by the director only with the agreement of the trade union committee.

As a stimulus to better fulfilling and overfulfilling the plan, the existing system of bonus payments to the workers, management staffs, engineers and technicians for fulfilling the principal targets of the plan.

In addition, bonuses are paid at enterprises for elaborating and applying new techniques, for creating new designs and putting them into production and also for economising raw material, power, or fuel compared with existing plan standards and expenditures.

Thus, *economic accountancy is an important principle in managing industrial enterprises in the USSR; it has created an extensive system of economic stimuli which give the enterprise as a whole and all its workers material incentive for the unconditional fulfilling of the state economic plans with the very best use of the labour, material and money resources assigned for that purpose.*

* * *

The principles of industrial production management elaborated in Soviet practice are applied in the other socialist countries. However, while using the experience of the USSR in those countries and in selecting the most expedient forms of industrial management, one must take into account the scales and branch structure of industry, the territorial and other concrete conditions and peculiarities. To ensure efficiency in management it is necessary not only to select the forms of organization corresponding to the conditions concerned, but also constantly to perfect methods improving the qualitative indices of work at enterprises.

New India Press, New Delhi

SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

PLANNED STATE INDUSTRY IN THE USSR

BY

D. I. ALEHIN

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Information Paper No. 65

PLANNED STATE INDUSTRY IN THE USSR

By
D. I. ALEHIN

The industry of the USSR, its branches and separate enterprises, develop on the basis of unified long-term and current State plans for the development of the whole national economy. Without a unified state plan it is impossible to run and develop the national economy, which under socialism forms an indivisible whole in all its sections, all its links.

The Soviet State, fulfilling its economic and organizing functions by means of planned economy, pursues the requisite economic policy and consciously making use of the objective laws of socialism, fixes the dimensions and speeds of social production, the correct proportions in the various branches of the economy in the distribution of labour and means of production among the branches of the national economy and the regions of the country.

Many years of practice have proved that planned economy is the great advantage of socialism; it ensures uninterrupted development, steady increase of production at faster rates than under capitalism, and economises labour and capital.

The state industry in the USSR has the leading role in the development of all the branches of the national economy. It is in industry that the material and technical means of production and the main part of the national income are created, and these are sources of extended socialist reproduction and steady rise of the material and cultural standard of the people.

The plans of industrial development in the USSR are elaborated for long terms—for 5-7 years or longer (10-15 years) and in current terms—for every year. Besides this, the system of planning in industry includes considerable work for effective planning and control of production.

Long-term planning ensures the solution of major economic and political problems which take several years to carry out.

Thus, for instance, the basic tasks of the first five-year plan for the development of the economy of the USSR (1928-1932) consisted in transforming the Soviet Union from an agrarian and backward country into a mighty industrial power, in squeezing the capitalist elements out of the economy and creating the economic basis for socialism.

As a result of the successful fulfilment of the first five-year plan and the subsequent long-term plans for the development of industry, the Soviet State industrialized the country, guaranteed its own economic independence, built a socialist society and created a powerful material basis for the further successful development of the national economy and a rise in the people's well-being.

At the beginning of this year the control figures of the development of the economy of the USSR for 1959-65 were approved.

The main tasks for this seven-year period in the domain of economics were determined as follows : to achieve such an increase in production in all branches of the economy on the basis of the priority development of the heavy industry, which would allow the decisive step to be taken in creating the material basis of communism and in ensuring the victory of the USSR in peaceful economic competition with the capitalist countries, to ensure a considerable rise in the living standard of the people on the base of the growth of the economy, of the productivity of social labour and production technique.

The elaboration of long-term plans in the USSR begins with the fixing of the control figures. The control figures for the development of the national economy as far as the main indices, the branches of economy, and the Union Republics are concerned, are worked out by the State Planning Committee of the Council of Ministers of the USSR, jointly with the Councils of Ministers and Planning Committees of the Union Republics, the ministries and departments of the USSR, with the participation of scientific institutes and organizations.

The bases for the elaboration of the control figures, as for all Soviet economic planning, are :

the basic economic law of socialism, which subordinates production to the maximum satisfaction of the constantly growing material and cultural requirements of the whole of Soviet society;

the law of planned proportional development of the economy on the basis of priority development of heavy industry, which provides the possibility of running the economy rationally and economically for the whole country as well as in each particular section;

the laws of uninterrupted rise in the productivity of labour and socialist accumulation;

the balance method of calculating requirements and how they can be covered according to the branches of the economy and the economic regions of the country, which allows the discovery of any disproportions in the economy and defines the way to eliminate them.

The control figures elaborated taking into account these basic requirements after being considered and approved by the higher state bodies, the State Planning Committee, the Councils of Ministers of the Union Republics, the Ministries and departments of the USSR, are brought to the knowledge of organizations and enterprises under the jurisdiction of these bodies.

On the basis of the control figures they have received, the enterprises and organizations work out long-term plans, distributing the tasks according to the years of the period planned for.

The elaboration of a long-term plan for the enterprise provides the possibility of ensuring the carrying out of the basic tasks of the enterprise in increasing output and mastering the production of new, improved articles on the base of perfected techniques and progressive technology.

The base on which the long-term plan is worked out in enterprises is a profound technical and economical calculation of the enterprise's possibilities for increasing output, lowering cost of production and developing new techniques.

For each enterprise, shop and section of production there is worked out, with the active participation of all the workers and employees a plan of organizational and technical measures, according to which, on the basis of latent potentials, tasks are fixed in raising loads on the equipment and production premises available, in cutting material and raw material expenditure per unit of output, in decreasing the labour required for production and raising the productivity of labour.

The widespread discussion of the most important organizational and technical measures and their adoption by the collective of the enterprise reveal the possibilities of developing production by better utilization of the

productive capacities available, and the degree to which the basic resources of the enterprise, must be extended and the most economic ways of doing this are determined.

The mass patriotism of the Soviet people, the high consciousness of the working people and their desire to fulfil the seven-year plan as well and quickly as possible are manifest in the fact that the majority of enterprise collectives assume obligations to put out more production than is laid out by the control figuers for the long-term plan, without any increase in the capital investments assigned to the expansion of the basic resources.

Many enterprises and National Economy Councils, working out the long-term plan for the development of industry for 1959-65, took upon themselves the obligation to reach the volume of production planned according to the control figures a year or a year and three months before the fixed time without any increase in capital investments.

The enterprises and National Economy Councils are fulfilling their obligations successfully. The plan for the output of industrial production for 1959 will be overfulfilled by approximately 4%. There will be produced over and above the plan a considerable quantity of iron and steel, nonferrous metals, coal, oil, power, machines and equipment, building materials, and consumer goods. The output of means of production will be increased in 1959 as compared with 1958 by 12%, and the production of consumer goods by 10.5%.

The long-term plans of enterprises are made up according to the following basic indices :

production of gross output at fixed wholesale prices and production of commodity goods at current sale prices;

output of the basic kinds of production in their natural expression;

production of gross output per member of the collective and per worker in fixed wholesale prices;

expenditure, expressed in money per rouble of commodity production wholesale sale prices current for the enterprise;

increase of productive capacities and size of investment required accordingly;

development of new technique and technology.

The perspective plans of enerprises are the bases for the elaboration of the long-term plan of development of industry and of the whole economy.

Basing themselves on the draft plans of the enterprises, the National Economy Council draws up a combined plan for the economic administrative region, which, after consideration by the board of the National Economy Council and the local Party and Soviet organizations, is submitted to the Council of Ministers of the Union Republic.

The State Planning Committees of the Union Republics draw up the draft plan for the republic and submit it to the Council of Ministers of the Union Republic; after consideration there the plan is forwarded to the Council of Ministers of the USSR.

The State Planning Committee of the USSR, jointly with the Councils of Ministers of the Union Republics and the appropriate ministries and departments of the USSR, considers the drafts submitted by them and presents a combined plan as concerns branches of industry, the Union Republics, the most important nomenclatures of articles, the basic qualitative indices (lowering of cost, productivity of labour) and volume and assignation of investments for the approval of the higher state bodies.

When approved by the session of the Supreme Soviet of the USSR the national economy plan acquires force of a state law and is brought to the attention of organizations and enterprises and its fulfilment becomes obligatory. *Current Planning* consists in the elaboration of industrial and finance plans for the enterprise (industry) for one year, broken up into quarters.

NOTES

The annual plan of the enterprise defines the task of the long-term plan for that year, takes into account the additional potentials discovered and reserves for increasing production and cutting production expenditures and determines the production and economic activity of the enterprise and economic organizations for the year planned for.

It is important to note that as a result of the successful fulfilment by the industry of the USSR of the tasks of the first year in the seven-year period and the additionally discovered latent potentials for increase in production, the development plan for 1960 provides for increased tasks compared with those taken into account in the calculations for the seven-year plan.

During the first two years of the seven-year plan the control figure task for industrial production will be overfulfilled by about 100,000 million roubles. The volume of steel production foreseen for 1960 is almost 3 mill tons more than was adopted in the calculations for the control figures, and production of rolled metal is almost 2 mill tons more. The successful fulfilment of the task of increasing the productivity of labour in 1959 allowed provision for a greater increase in productivity for 1960 than was laid down according to the control figures of the long-term plan. In two years of the seven-year plan the productivity of labour in industry is to rise by 13.5% as compared with 11.7% foreseen by the control figures, while at the same time the length of the working day will be reduced to seven hours.

The drawing up of the technical-industrial-financial plan at an enterprise begins long before the beginning of the period planned for by the analysis of the available report figures and the calculation of the anticipated fulfilment of the plan for the current year, the discovery of productive reserves and the elaboration of the organizational and technical measures to utilize them, fixing of progressive technical and economical norms of use of the equipment, raw material and materials and the labour norms. On the basis of these materials, of the corresponding tasks of the long-term plan and the control figures received from the National Economy Council, the enterprise draws up a draft annual plan, which it submits to the National Economy Council in the manner laid down.

The list of indices of the industrial plan changes depending on the link of industrial management at which the plan is elaborated. The State plan for the whole of industry fixes tasks for the output of only the most important kinds of production, the material balance and the plans of material and technical supply and the basic qualitative indices of the work of industry.

The technical-industrial-financial plan of an enterprise includes the following main sections :

(1) plan for output of production;
(2) plan of utilization of the main resources (equipment, premises, constructions);
(3) plan of technical development;
(4) plan for labour and wages;
(5) plan of material and technical supply;
(6) plan for cost of production;
(7) financial plan;
(8) plan of capital construction.

The basis of the plan is the task concerning output of production as far as quantity, nomenclature, and quality go. This determines all the other sections of the plan.

The Plan of Output of Industrial Production is determined by : the output of articles in their natural expression; output of *gross production*—total volume of production in fixed wholesale sale prices of the enterprise and output of *commodity* production—intended for sale to the economy at current wholesale prices.

The Plan of Utilization of the Main Resources is characterized by the output of production in its natural or money expression per unit of equipment or unit of capacity (1 cub. metre of furnace hearth, etc.), or per rouble of cost price of basic resources, depending on the conditions of production and nomenclature of articles produced. The plan of utilization of the main resources is characterized also by the shift coefficient and the coefficient of utilization of equipment. As a rule, in all industrial enterprises in the USSR there is a very high coefficient of utilization of the main resources.

Each enterprise, besides ensuring the tasks of current production, carries on planned work for the further specialization of production, for the construction of new, improved models of production, for the elaboration and application of advanced methods of technology and organization of production. At many enterprises, besides the participation of all the working people in the improvement of production, more than half the engineers and technicians take part in work of this kind.

The plan of technical development is one of the most important factors in increasing production and provides for tasks of complex mechanization and automation of production, modernization of the equipment in use, intensification of technological processes, utilization of advanced technique, technology and organization of production, and tasks in the elaboration and preparation of new machines, equipment and materials. It is in the technical plan, too, that the expenditures conneted with the carrying out of the organizational and technical measures, the economic effect of their application and the sources from which they are financed (centralized assignations, subsidies from the State Bank, sums from the Works fund) are defined.

The Labour and Wages Plan foresees measures connected with the improvement of the organization of labour and the application of advanced methods of work. On the basis of these measures the labour plan fixes tasks: 1. for increasing output per worker and per member of the collective during the period planned for (expressed in money or in nature); 2. number of staff according to categories; 3. average monthly wages according to categories; 4. degree of utilization of working time (number of hours per man worked during the year); 5. share of wages in the cost of production.

In the USSR the productivity of labour in industry increases with great speed, wages growing at the same time, as a result of the application of new techniques and advanced technology. Correct planning guarantees somewhat higher speeds of increase in labour productivity compared with the increase in wages.

According to the control figures for the seven-year plan the productivity of labour in industry will rise by 40 or 50%, the real wages of workers and employees rising by 40% during the same period.

The Plan of Material and Technical Supply includes : the analysis of the utilization of material resources in order to find out latent reserves and means of economy; standardization of expenditure of the main and accessory materials, fuel and power, to ascertain the maximum expenditure permissible per unit of production; determination of requirements of material and power and sources from which they can be covered.

Planning of the utilization of materials and power is arranged so that material resources are assigned first of all to sectors of production and construction which decide the success of the whole country's economy, to lower expenditure of materials, fuel and power for production and construction and to cut down expenses connected with the supply of material and technique to the enterprise or construction.

The cost of production plan is based on the plans of output of production and of organizational and technical measures, on labour and wages, material and technical supply, and reflects all the progressive changes in technique, technology and organization of labour and production. The cost of production is a most important concentrated qualitative index of the work of

industry, determining its profitableness. The systematic lowering of production costs is the basic source of accumulations within industry.

The elaboration of the cost of production plan embraces :

lowering of cost of the compared commodity production;

drawing up of estimates of expenditures on production and determination of the planned cost of the gross and commodity productions;

calculations of the cost of the given articles according to the plan.

The industrial management bodies confine themselves, as a rule, to the elaboration of tasks on lowering cost of compared commodity production by the method of general calculation (expenditures on materials, correlation between the increase in productivity of labour, increase in wages and decrease in the ratio of disproportionate expenditures on administration and auxiliary work, per unit of production in connection with increased production), and to determining the sums expended on the whole of the production on the basis of data for each item of the production estimate.

At enterprises there is a more detailed elaboration of the cost of production plan, embracing :

elaboration of plan calculations of the cost of particular articles to determine the lowering of cost on each primary element of expenditure, and ascertain the basis on which to determine the economic basis for wholesale prices;

elaboration of estimated expenditures on production for all elements of expenditure and determination of the planned cost of the gross and commodity productions;

elaboration of the plan for lowering the cost of the compared commodity production on the basis of detailed working out of planned and reported figures for each article.

An important measure for lowering cost of production and cutting production expenses is strict economic accountancy at enterprises and economic bodies and wider application of economic accountancy in shops and teams, as the basis on which to draw all the working people into active participation in cutting production expenses.

The Finance Plan of an enterprise foresees the full sum of funds necessary to carry on production, for sales and supply turnover, for capial construction and capital repairs and for the covering of unproductive expenditures in the exploitation of residential and communal premises at the enterprise and other auxiliary premises.

In working out the finance plan the requirements of turnover funds for ensuring the production plan are determined by fixed standards; an estimate of the disposal of the product is drawn up, the size of the profit from its sale is ascertained, the balance between the income and expenses of the enterprise is struck, thus determining the sums needed for production and other needs of the enterprise and the source from which they can be covered.

The main source from which the state finances are formed in the USSR is socialist accumulation provided by production.

The financial accumulations of state industry in the USSR are realized in two principal forms:

net income (profit) of the state enterprises;

centralized net income of the Sate (turnover tax, deductions from profits, charges from wages for social insurance, etc.).

The socialist state, concentrating the money accumulations from industry in the State budget, provides fully and in good time the necessary finance for the measures provided for by the plan for the development of the national economy and first and foremost its foundation—heavy industry—and the growth of the material and cultural well-being of the population.

Besides, financing from the State budget permits the State organs to act on the whole economic and productive activity of enterprises, to control their work for the fulfilment of the national economic plans and their observance of the economy regime.

Part of the profits of the state enterprises remain at the disposal of the enterprise and are assigned to measures for expansion and improvement of production, for bonuses for those who have specially distinguished themselves in work and for supplementary financing of works to improve the cultural, living and lodging standards of the workers of the enterprise and their families, according to plans drawn up by the director of the enterprise jointly with the trade union committee.

At enterprises, besides the finance plan, a credit plan is also drawn up. It shows what loans are resorted to in the work of the enterprise.

The basic forms of State credit to industry are :

credits for seasonal accumulation of valuable commodity materials;

credits for seasonal expenditures on capital repairs to the basic resources of the enterprise;

credits for carrying out quickly paying expenditures for applying new techniques, mechanization, improvement of technology and rationalization of production, as well as for expansion and organization of consumer goods production.

The plan for capital construction is an integral part of the general plan of development of industry and is elaborated in close conjunction with the other main sections.

As a result of ascertaining the necessary supplementary productive capacities to guarantee carrying out the production plan, the total amount of capital investments in the various branches of industry for these supplementary capacities to be put into operation, concrete construction objectives and planned tasks for each individual structure are determined.

The capital investment plan of industry contains : tasks for putting into operation the basic resources and production capacities;

The volume of capital investments, their assignment according to branches, republics and economic regions and their structure;

detailed lists of capital building work according to constructions and sites.

A special section of the capital investment plan is the plan of work of planning organizations for current construction and for construction in years to come.

At the same time the plan of contract construction works and of development of the building industry as a means of successfully carrying out capital construction plans are also drawn up.

To improve the planning of capital repairs and construction, to shorten the time required for building and inadmissible dispersion of resources, standard times for the building of enterprises, and other constructions are fixed. The standards are determined by the length (in months) of building time for enterprises of different branches and particular kinds of buildings and constructions and the approximate distribution of capital investments over the years of construction (as percentages of the general estimated cost).

OPERATIVE PRODUCTIVE PLANNING

As pointed out above, operative planning is carried on in enterprises. By this is meant the elaboration of work plans for separate parts of the enterprise (shops, production sectors, working places for a month, ten days, a day, a shift, or even only an hour). As one goes from the plan of the enterprise to the plan of the shops and production sectors, taking

NOTES

into account the peculiarities of the techniques and technology of their production, the scope of planned indices narrows down.

Operative production planning defines and ensures the fulfilment of current plan tasks and foresees the quantitative agreement in production output between the different parts of the enterprise, for which the system of productive calendar graphs is used.

Besides the planning of output, operative productive planning also embraces planning of : numbers of workers and size of wage funds, productivity of labour, utilization of productive capacities, equipment and lowering of production cost.

Operative productive planning of the work of enterprises is a powerful means of daily management and regulation of production, ensuring in the final account, the fulfilment and over-fulfilment of the task imposed by the State plan.

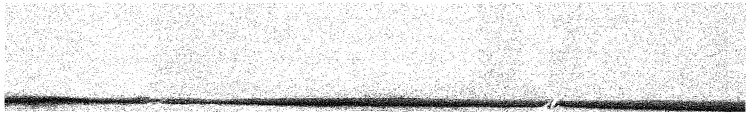
STATISTICS IS THE BASIS OF PLANNING

Statistic reports are of great significance in planning; they provide the planning bodies with the necessary information on the results of development in industry, operative as well as for long periods, within a branch or an economic region.

Statistic data in the USSR are prepared by the Central Statistics Bureau of the Council of Ministers of the USSR and the statistics bodies in the republics, territories, regions and districts, on the basis of compilation from annual reports sent in by each industrial enterprise, construction site or economic organization, and from their operative reports—every ten days, monthly or quarterly according to the degree of importance of the indices.

A unified State statistic report on industry opens up great possibilities for economic analysis of the work of enterprises and is one of the decisive means for improving quality in planning and operative action of the State bodies for the fulfilment of production and construction plans.

New India Press, New Delhi.



SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

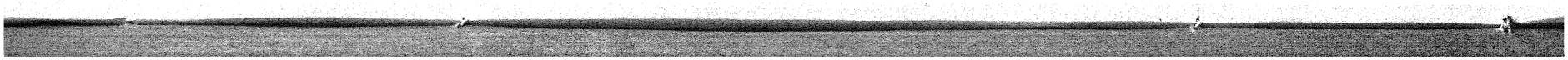
MANAGEMENT OF STATE INDUSTRIAL ENTERPRISES

BY

K. V. STROGANOV

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Information Paper No. 66



MANAGEMENT OF STATE INDUSTRIAL ENTERPRISES

By

K. V. STROGANOV

Problems of management in the socialist industry of the U.S.S.R. can be better illustrated perhaps by the example of a typical state industrial enterprise.

In this connection the Seminar participants might be interested to know how Likhachov Auto Works in Moscow, known as ZIL, is managed.

THE WORKS' CHARACTERISTICS

ZIL manufactures lorries, buses, cars, bicycles and refrigerators and is the oldest enterprise of the comparatively young Soviet motor industry. The first ten Soviet motor vehicles were produced at ZIL in 1924.

The Works has three subsidiary factories in Moscow which produce carburettors, propeller shafts and other components.

The ZIL's 53 shops include instrument shops which produce a big range of tools and fixtures and special machine tools; several foundries, a forging shop and a press shop; machine assembly shops and final coveyor assembly.

Taking advantage of the extensive co-operation facilities inherent in state industry ZIL gets the materials and parts it needs from 800 contractors and sends its products to 25,000 customers.

The Works, as an integral economic unit, has its own transport facilities and its own building department, which is responsible for industrial and housing construction; it has a medical department and trains its own personnel; besides it runs several clubs and other institutions with extensive welfare, educational and recreational facilities.

The training facilities include a Trades School, a School for Working Youth, a Motor Industry College and an Evening College.

The Works Central Club, built according to the design of the well-known architects, the Vesnin brothers, has nearly 30,000 square metres floor-space, four auditoriums, seating from 300 to 1,100 people, a Children's Section and ample accommodation for the Club's 72 hobby and amateur art circles and their 4,212-strong membership.

ZIL workers get their free medical treatment at the Works Polyclinics, a five-storey building, staffed by 142 doctors and 250 other personnel.

The Works runs two round-the-year rest homes, one on the shore of a lake near Moscow, the other on the Black Sea coast in the Crimea.

NOTES

Twenty kindergartens are at the disposal of ZIL workers, next door to their homes, as well as three permanent children's camps in a picturesque country locality. Every year three summer camps accommodate on average of 4,000 children of school age.

The Works has large sports grounds and a covered swimming pool, the whole providing any sports facility a ZIL worker can wish for.

Fifteen canteens cater for the workers, besides a central canteen with its own confectionery and two canteens for those on diet.

WORKS MANAGEMENT

The Works comes under the Moscow City Economic Council which body, having considered the proposals submitted by the Works' management, approves the Works production and capital investments plans, circulating capital norms, and principal economic indices.

The U.S.S.R. State Planning Committee, taking into account the needs of the whole national economy, decides how the Works output should be distributed and decides which contractors will supply the Works with basic and subsidiary materials, semi-finished and finished products.

The Works, as an independent economic unit, has its own property and budget and constitutes a juridical person acting in the sphere of public turnovers with its own rights and obligations and bearing sole responsibility for the commitments it undertakes.

The Works management is appointed by the Economic Council.

The Director of the Works has great powers, on the strength of which he manages the enterprise on his own responsibility within the laws of the country. Without any special power of attorney he represents his enterprise in all state agencies and public organizations. He has the authority to conclude sale and purchase contracts and to negotiate economic and technical terms and delivery dates as well as to employ and dismiss workers and other staff.

The Director bears full responsibility for the many-sided activities of the whole enterprise and for the most effective use of the available material resources.

The management of the enterprise comprises the following main departments: production management, technical services and preparation of production, economic and technical control, personnel and welfare, purchase and sales departments.

The production department, headed by the Production Manager, ensures continuous production on the basis of three kinds of information.

The Works' annual output plan, drawn up in accordance with the state assignment, is divided into month, ten-day, day and shift plans. The principle information—the plan quotas—together with the report on their shift fulfilment produce the third kind of information, correcting subsequent shift assignments.

Current production is run without any special reports or conferences, and yet a smooth working of the enterprise is ensured.

Technical services, main designing and technological offices, research and experimental laboratories, instrument shops, as well as mechanical and power services—all come under the Chief Engineer and ensure preparation of production in accordance with the Works' long-term plan.

Economic services that include the planning department and the accounts department as well as the department of technical control ensure the fulfilment of quality indices and come under the Works Director.

The Deputy Director is in charge of the commercial services, including supply and distribution.

Personnel management, including recruitment and dismissal, training and re-training as well as all welfare institutions comes under the Assistant Director.

PERSONNEL

All the Works' services are staffed by people trained at Soviet educational establishments.

Out of a total of 7,115 technicians and engineers employed at the Works a mere 486 have had no higher or secondary education.

Nearly, 20,000 workers have secondary education, with another 12,000-odd studying while working.

A considerable number of ZIL workers are studying at evening and correspondence educational establishments : 1,057 in colleges, 1,249 in technical secondary schools, 2,115 in schools for working youth which give complete secondary education and 520 are externe students.

An average of 1,300 technicians and engineers attend annual refresher courses where they study new techniques and efficiency methods.

Most shop managers and chiefs of the Works' functional services are specialists with university degrees. Twelve of them are Doctors and Candidates of Science and are employed in the designing offices (A.N. Ostrovtsov, Deputy Chief Designer, V.F. Rodionov, chief of passenger-car department), are engaged in research (L.A. Yegorov, chief of the mechanical test laboratory) or manage the principal functional services (A.D. Assonov, Works' Chief Metallurgist, N.D. Titov, Deputy Chief Metallurgist) and so on.

We make wide use of teaming diploma'd specialists with men of extensive practical experience, people new to the Works with old-timers. Quite a few of our executives have risen from the shop-level.

A. V. Kuznetsov, Production Manager, is an example of this, having travelled from milling-machine operator at the time of the first Soviet motor vehicles via foreman and shop manager to his present post. And he is no exception.

Quite a few executives filling posts in industry and even the country's government are former ZIL men.

WORKERS' AND EMPLOYEES' PARTICIPATION IN MANAGEMENT

Participation of workers and employees in management expressed in various forms plays a considerable part in raising the efficiency of a socialist state enterprise.

At ZIL there is a permanent production conference composed of 148 representatives of workers, 115 engineers and office-workers as well as representatives of public bodies and the management. This body enjoys advisory rights and discusses problems relating to the Works' activities and submits its recommendations to the Main Offices.

There are 59 such conferences altogether, acting as permanent bodies, most of them at shop level, with a total membership of 4,721 people, 3,111 of whom being workers.

The permanent production conferences have played a most active role in preparing the Works' transfer to a seven-hour working day. This work began in 1956. A total of 3,822 organizational and technical measures aimed at raising labour productivity to the required level have been introduced since then.

These measures which were widely discussed at the permanent production conferences at both shop and works level, have made it possible to transfer half of the Works staff to date—starting with the foundries, forge and going to other shops—to a seven-hour working day. The transfer has not resulted in any reductions in the workers' wages.

Socialist competition is one of the most important forms of the workers' and employees' participation in production management.

The Moscow ZIL competes with the Auto Works in Gorky. Inside ZIL all shops, sections and teams compete with one another. Inside teams there is competition between individual workers.

WORKS FUND

Special mention is due to the Works fund composed of deductions from planned and surplus profit as a form of collective material incentive towards better work.

This fund enables the Works Director, in cooperation with the Works' public organizations, to do considerable welfare work, by building workers' houses, clubs, holiday houses, creches, kindergartens and other educational and welfare institutions as well as providing extra holiday-house passes and other benefits for ZIL workers.

Here are a few figures to illustrate the way the Works fund has been used in the last three years.

,000 rubles

	1957	1958	(9 months) 1959
Fund grew by	13,962	26,807	26,959
Housing expenditure	5,365	22,833	19,575
New housing floor-space (sq.m.)	2,917	14,244	15,787
Bonuses	1,913	2,826	2,000
Financial benefits	953	992	1,400
Passes to sanatoria and holiday homes with 70 per cent discount	1,040	1,002	1,495

The rest of the fund goes towards the cost of maintaining children's institutions, providing help for the sick, building a new holiday home and doing other welfare work.

MATERIAL INCENTIVES

Material incentives take the form of paying special bonuses for over-fulfilling the plan, for attaining better economic results or raising the quality of production.

In addition to their wages ZIL workers, technicians, engineers and office-employees receive bonuses for high economic results, provided the plan is fulfilled in nomenclature as well, and for fulfilling the plan for the introduction of new machinery, technology and for the perfection of the existing machines, development of new materials etc.

The introduction of new machinery alone brought the ZIL workers 1,814,000 rubles in 1958 and 2,354,000 rubles for the first ten months of the current year.

Along with material incentives exceptional importance is attached to a wide publicity of the best results in the competition between enterprises,

shops, sections and teams. The portraits of the foremost workers are displayed on the Boards of Honour at the shop, enterprise and district level. The best of them are awarded diplomas. Of great moral incentive is the publicity that the best results get in the wall newspapers, the Works' paper and the national Press.

The foremost workers and office-employees are decorated with Government awards.

The Works as a whole has been twice decorated the highest Government awards—the Order of Lenin and the Order of the Red Banner of Labour—for successes in motor vehicle construction.

The names of the workers with the very best records of work are known throughout the country: such as forge-operator Ushakov, turner Bushuyev, the holder of the world record of cutting speed, forge-operator Kokoshko, technologist Pronkin as well as whole teams of Communist Labour.

Working men with a creative approach are held in high esteem in our country.

RATIONALIZATION AND INVENTION

Rationalization and invention play an increasing role in greater technical progress at the Works.

There are many rationalizers and inventors at ZIL whose work in 1958 can be characterized by the following figures:

6,540 rationalization proposals and inventions accepted and introduced;
34,300,000 rubles saved;
7,770 tons of metal saved.

All inventors and authors of technical improvement and rationalization proposals are given certificates safeguarding their exclusive rights within the framework of the Soviet laws.

INTRODUCTION OF NEW TECHNIQUES

Technical progress at ZIL is effected both through reconstruction work, which radically changes the look of the enterprises, its level of technology and the organization of production and labour; and through day-to-day improvement of the production process aimed at greater labour productivity and better working conditions.

One of the indices of technical progress is the amount of electric power consumption per worker which at ZIL was 4,859 kw/h in 1950, 5,691 kw/h in 1955 and 7,089 kw/h in 1959. The supplies of electricity are rising accordingly.

One of the encouragements for greater technical progress that the State offers to industry is an enactment providing for State Bank loans to the enterprises planning the introduction of innovations with quick return of the outlays; two-year return for machine shops and three-year return for foundries and forging shops.

This enables the Works to make a better use of its internal reserves. The State Bank loans help towards quicker introduction of effective measures.

Between 1955 and October 1959 the Works received 45 million rubles in State Bank loans to introduce 70 such innovations. The introduction of 55 of them, which cost the Works 36 million rubles, saved it 49.5 million rubles in one year.

Thus mechanization of storage facilities and space-saving loading of finished vehicles led to a 15-million-ruble saving in one year against the original outlay of 9 million rubles.

A 350-ton hydraulic press for briquetting shavings which was manufactured and erected at a cost of 637,000 rubles obtained on credit gave an annual saving of 959,000 rubles.

Another Government enactment, providing for the transfer of 0.3 per cent of the planned cost of the marketable output to the so-called new techniques fund, gives additional encouragement to the development and introduction of new techniques and better design and technology of production. This fund is used, subject to the approval of the Economic Council, for paying bonuses to the staff of the technical services and the workers and engineers participating in the introduction of new techniques.

For instance, bonuses to the tune of 1,250,000 rubles were paid for the designing and developing a new cross-country three-axle lorry with variable tyre pressure.

A total of 150,000 rubles were paid in bonuses for the development and introduction of a new method of extruding the steering knuckle for lorries with a 4,000-ton press.

IMPROVING MANAGEMENT

The Works' chief specialists lead the staff of the Works' Main Offices as well as that of all shops in their efforts to reduce production costs by reducing managerial costs.

These efforts towards improved management go along the lines of a more effective management with a simpler and cheaper organizational structure.

Labour-saving in management is achieved through better organization of production and management; higher efficiency of the staff; simpler, shorter and quicker, mechanized, accounting and operational statistics, and better and cheaper information.

Thus, in 26 years, that is since the introduction of Works' computer office, the number of accounting and clerical staff per 1,000 workers was cut almost by two-thirds, from 82 in 1932 to 27.8 in 1958, all the redundant being provided with employment according to their qualification.

Personnel and administration promotion are the concern of their direct superiors, shop and section managers, foremen and others, together with the Personnel Department.

By short-circuiting unnecessary links in the organizational structure, by replacing effective functions and operations of management for ineffective we are constantly reducing managerial costs.

Thus, between 1955 and 1959, 14 shops were amalgamated into six bigger ones: two machine assembly shops, No. 1 and No. 2, with 2,050 and 2,036 workers respectively, an assessories shop with 1,900 workers, a foundry with 755 men that were divided between two foundries before etc.

Simultaneously new repairs services were established as well as offices for designing new equipment.

The above-mentioned amalgamation alone enabled the management to reduce the administrative staff by 79 people all of whom were provided with employment in accordance with their qualification.

This, in turn, made it possible to strengthen the Works' technical services over the same period by employing another 987 men. Among the departments that profited most were the Chief Designer's Department and

its experimental shop, the Technology Department and the Chief Metallurgist's Department.

Further reduction in managerial staff will be brought about by the introduction of electronic computers, the first of which to be installed early in 1960. This will reduce the accounting and clerical staff by 250 and ease the compilation of operational statistics.

You will observe, therefore, that an overall reduction of managerial costs at ZIL is accompanied by a steady growth, both absolute and relative, of the number of designers, technologists and research workers.

EFFECTIVENESS OF MANAGEMENT

Measurement of management, that is specification of objective and comparable criteria of the level of its effectiveness, can well be described as one of the most intricate economic problems.

We are inclined to consider as objective criteria of effective management those indices that express the ratio between such principal factors of production as gross output and basic and circulating capital shop-space etc.

Thus defined the increase in our managerial effectiveness over the last nine years can be seen in the following table:

%

	Gross output per unit of basic capital	Gross output per unit of circulating capital	Gross output per metre shop-space
1949	100	100	100
1953	137	184.2	164.7
1958	184.1	255.3	269.5

These figures show that in nine years output per unit of basic capital almost doubled, that the turnover of circulation capital taken against the volume of production increased by 150% and that gross output per metre of shop-space increased by more than 150%.

An important generalizing index of the efficiency of management is the ratio between annual output and the total number of people engaged in management, that is all technicians and engineers and all accounting and clerical staff.

This is illustrated by the following table :

	Gross output per office-worker
1949	100
1953	142.5
1958	204.5

These figures show that ZIL's managerial costs in 1958 were only half of what they used to be nine years ago.

The Works, in cooperation with the Labour Research Institute and the Motor Vehicle Research Institute, continue their efforts towards improved management.

* * *

These, in our opinion, are some of the specific problems of management in the conditions of socialist state industry that we at ZIL encounter and deal with in our work.





SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

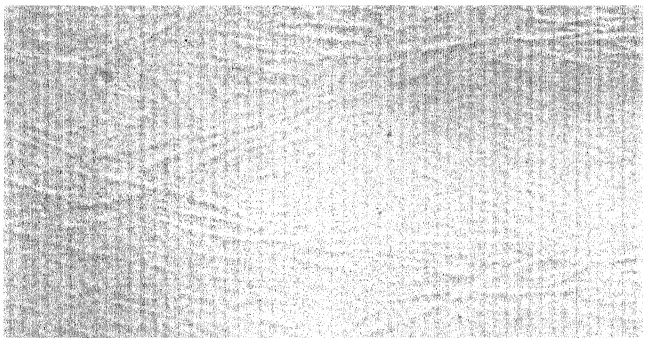
SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

PARTICIPATION OF WORKERS AND OFFICE EMPLOYEES IN THE MANAGEMENT OF STATE ENTERPRISES

SUBMITTED BY THE
U. S. S. R. PARTICIPANTS

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Information Paper No. 67



PARTICIPATION OF WORKERS AND OFFICE EMPLOYEES IN THE MANAGEMENT OF STATE ENTERPRISES

Submitted by the

U.S.S.R. PARTICIPANTS

Public ownership of means and implements of production and of products of labour is the economic basis of the Soviet Union.

Earth, its mineral wealth, woods, factories, plants, mines, transport, building industry and other enterprises belong to the State, *i.e.*, are national property, since the State power in the Soviet Union is in the hands of the working people themselves.

Under the Socialist order the unity of interests of the State and its people ensures factory and office workers real rights and possibilities for the most active participation in the management of national production.

The present day period, a period of extensive construction of Communism, is characterised by further enhancement of socialist democracy by drawing the broadest masses of workers into the management of the country's affairs.

Soviet people manage their national economy first and foremost through the Soviets of Working People's deputies. Trade unions on their part extensively draw factory and office workers into the management of production.

Trade unions in the Soviet country are organised on an industrial principle : all workers of an establishment or institution join one trade union organization, while each trade union unites the factory and office workers of one or several branches of the national economy.

Being the biggest mass organization in the country, the Trade Unions unite on an entirely voluntary basis more than 52 million members.

Soviet trade unions actively participate in the work of the government economic councils and planning agencies on matters of production, labour and welfare conditions for the workers. They also administer social insurance state budget which is 64,000 million rubles in the current year.

Trade unions draw new millions of the working people into economic and cultural construction and management of production in the course of their many-sided everyday activities in the very midst of the working population in the effort to raise the cultural and material well-being of the people.

One of the means of drawing the working people into the management of production is the collective agreement.

NOTES

The collective agreement is the chief document which defines the relations between the management and the workers. It lists in very specific detail the obligations of both the personnel and the management and specifies the tasks set before the establishment. The collective agreements are concluded at the Soviet enterprises annually.

The Decree of the Council of People's Commissariats of the RSFSR on collective agreements was signed by V. I. Lenin published on July 2, 1918. This document was one of the first Soviet labour laws and the first law in history which recognised the legal force of the collective agreement.

Let us follow the procedure of concluding the collective agreement at the Gorki Motor-Car Plant.

Broad sections of the workers and employees of the plant took an active part in the elaboration of the collective agreement. The draft of the collective agreement was drawn up on the basis of the suggestions of the workers which the trade union Committee of the Plant began to collect long before its conclusion. The major points submitted for inclusion in the collective agreement were discussed at the meetings of the teams, sections and shops. The draft of the collective agreement was published in the plant newspaper and hung out on the stands in the production sections. The agreement in its final form was adopted at the trade union conference of the plant. Here is a summary of some of its sections.

The main issue is a bilateral agreement between the management and the workers to ensure the fulfilment of the state production plan with various organizational and encouraging measures provided for the purpose.

The management assumed an obligation to introduce in the course of one year minimum 9,500 rationalization proposals the realization of which would give the plant 40 million rubles of economy annually, to prepare 1,200 new workers, to raise qualification of 8,500 workers and 1,500 engineers and technicians. Considerable attention in the collective agreement was given to commitments on the part of the management to create for the workers favourable conditions to study at the evening and technical schools and at the institutes.

According to the collective agreement a sum of 8,820 thousand rubles was allocated on labour protection and safety measures. The management took upon itself an obligation to provide 500,000 rubles from the fund of the plant for accommodations to holiday resorts for the plant workers and employees. More than 1,000 workers were to be sent to overnight dispensary for treatment.

Housing and workers' welfare received special attention in the collective agreement. The annual plan envisaged additional 37 thousand square meters of living floor space for the workers. The trade union committee put aside 500,000 rubles for the construction of a gymnasium with a waterpool and allotted 1,800,000 rubles for cultural and everyday activities.

Along with drawing up the collective agreement a plan of organizational and technological undertakings was elaborated at the plant. Participation of the plant workers and employees in the elaborations of the plans of organizational and technological undertakings is a good form of drawing broad sections of workers into production planning.

To enable the workers of the plant to keep abreast of the fulfilment of the collective agreement it is distributed in many copies among the workers.

Alongside with it there is an established rule at the Gorki Motor-Car Plant, just as at any other establishment, according to which the section and department executives and the management periodically report on the fulfilment of the collective agreement at the workers' meetings. And

the final results are annually discussed and summed up at the trade union conference of the plant.

A total of 76,000 meetings and conferences of the workers and office employees was held in 1958 throughout the Soviet Union, at which the results of the fulfilment of the collective agreements were checked.

There were 5,249 workers' meetings and conferences held in the Uzbek SSR in 1958 at which 21,000 workers spoke out and 13,483 suggestions were put forward for discussion, while in 1959 there were already 7,000 meetings and conferences at which spoke more than 26,000 workers and more than 18,000 suggestions were discussed.

The participation of the factory and office workers in drawing up collective agreements and their mass-checking is a school of management of production.

Another no less effective form of mass and systematic participation of factory and office workers in the management of production which happily combines one-man management with the fullest participation and control of the entire personnel are the production conferences, initiated by the workers in the first years of the Soviet power.

Since then they showed their full-blooded vitality and were widely used at the enterprises at every stage of economic construction. Production conferences were highly effective in disclosing new sources of raising labour productivity, in developing and improving production methods and in instilling conscientious attitude towards labour in the workers.

At present production conferences have turned into permanently functioning bodies which carry out their work with active participation of workers, engineers, technicians and employees, representatives of managements, trade unions and other public organizations.

Members of permanent production conferences are elected annually by an open ballot at general meetings of the personnel including both union members and non-members. Production conferences report on their work to the general meetings of factory workers and employees not less than once every six months.

The democratic principle of electing production conferences by open ballot allow to include in their membership great number of foremost workers, innovators and rationalizers, most active engineers, technicians and employees who possess perfect knowledge of production methods and enjoy authority and respect among their fellow-workers. About 7 million workers take an active part in the work of permanent production conferences with a membership of over 112,000 factory and office workers.

The tapping of new reserves for raising productivity of labour, increasing the output, perfecting quality and lowering production costs, as well as questions of technological progress and improvement of production methods have become the major issues of the work of production conferences.

In 1958 production conferences considered and accepted more than 2.5 million suggestions on how to improve work ; two-thirds of them have been realized.

All suggestions and decisions accepted at production conferences have helped the personnel of many enterprises to take upon themselves higher obligations in fulfilling their 1959 production plan and the Seven-Year Plan ahead of schedule. Production conferences of the Dnepropetrovsk Metal Works, Stalinogorsk Chemical Plant, Kuznetsk Metal Works were among the initiators of this movement.

Plant and workshop production conferences are becoming on an ever greater scale the initiators of important measures in raising the technological

level of production, improving its economic indices, most active initiators of mechanization and automation of production. For example, the permanent conference of the Dekhtyarsk copper mine of the Sverdlovsk Economic Council considered measures in connection with mechanization and automation of production processes in 1950. Workers and engineers made many valuable suggestions which allowed the management of the mine to automate the water drainage and the laddle-haulage system at two mines without extra expenditures.

The role of production conferences as organs of public control and thorough check of the management and the work of the enterprise has grown considerably. The Clause on production conferences stipulates that they have the right to listen to the regular reports of the management on the draft production and housing plans and on the fulfilment of state plans. The participation of broad sections of workers in such a control is a most striking evidence of full rights of factory workers and employees in the management of state enterprises. The workers stand guard over strict maintenance of state discipline by revealing shortcomings in the economic activity of an establishment or a workshop and by suggesting and carrying out measures for their elimination.

The work of production conferences is supplemented by such forms of workers' creative activity as economic conferences and public reviews. In Byelorussian SSR, for example, 50,000 workers participated in the work of various commissions during a public review of safety arrangements and industrial hygiene, which brought in a crop of 45,000 suggestions for improving labour conditions many of which were introduced then and there.

A profit of 1,300,000 rubles annually was gained by the Kharkov Transport Engineering Works due to the introduction of 500 suggestions made by the staff of the works during its public review.

No less successful was the public review organized by the Moscow Trade Union and Economic Councils of the Technological level of machines and instruments put out by Moscow enterprises.

The basic method of socialist construction is socialist emulation. It expresses the relations of co-operation and comradely mutual assistance of the working people in production process. Socialist emulation is closely linked with the change in the characteristic features of work with its transformation from forced labour into work of honour, valour and heroism. Such transformation is possible only in the country where the working people work for themselves for their workers' State.

The importance of Socialist emulation lies in the fact that it is an ever active source of people's initiative and organizational talent, that its participants become imbued with high responsibility for their common cause, developing their production and technological skill, and that it is a very good form of workers' participation in the management of production.

In the course of the development of our society socialist emulation also gained in scope. New more progressive and mature forms appeared on the initiative of the rank-and-file.

At present a burst of creative enthusiasm sparked by the Seven-Year Plan, has given rise to a new movement called communist work teams. More than 181,000 teams, shifts and sections and nearly 3 million workers, engineers and technicians.

Their motto is to be an example in labour and life. And they work hard to constantly improve production methods, better utilize their working hours, machinery and materials, thus, attaining higher productivity of labour. They persistently study and improve their skill and strive to live up to the high ideals that communism requires from its adherents.

Initiated by Valentina Gaganova, a Vyshni Volockek Textile worker, now Hero of Socialist Labour, a new wonderful movement was born : leaders of foremost teams, sections and shifts take over those which lag behind in order to help them to come up to the level of foremost teams and sections.

Trade Unions see to it that socialist emulation is given every publicity and made wide use of various methods of encouragement of workers.

Foremost teams, sections and shifts were awarded Red banners and pennants, photographs of front-rankers were prominently displayed on Honour Boards, their names entered into honour books ; best teams, sections and shifts, as well as foremost workers were given diplomas and handsome bonuses.

During 1954-1958, 1,910 workers of industry, transport, building and agriculture were awarded titles of Heroes of Socialist Labour, while 540,000 workers, collective farmers, engineers, scientists and office employees were awarded orders and medals of the Soviet Union.

Great is the share of Soviet inventors and rationalizers in successful work of the Soviet people. They are people of diverse professions and various ages and educational levels, but they are united by something common to all of them—creative, solicitous, thrifty approach to their work and the wish to multiply the successes of their enterprises.

The ranks of rationalizers in the Soviet Union are steadily increasing. Today they are 2 million strong. A formidable army as compared with 555,000 innovators the country had in 1950.

The number of inventions and innovations introduced into production is on the upgrade ; they call forth the improvement in technology of production and the saving of money and material resources in various branches of industry.

In 1958 alone 9,721 million rubles were saved due to the introduction of rationalization proposals and innovations. During the first six months of 1959 practical application of more than one million suggestions saved the country nearly 5,500 million rubles.

To further stimulate technical creative thought in a broad section of the working people and to draw workers into the management of production the All-Union Inventors' and Rationalizers' Society was set up in our country ; at present it has over 1300,000 members. 35,000 local branches were opened at the plants, mines and construction sites.

The councils of the Society at the enterprises promote technical progress by encouraging workers to come forward with their own ideas and inventions, pointing out the most urgent problems to concentrate on and organizing competitions and discussions of the innovators' achievements.

The inventors and rationalizers take part in the emulation to set up a Seven-Year Plan fund and are taking an obligation to contribute their share of inventions and rationalizing suggestions for a total sum of 100,000 million rubles.

Scientific and technological societies play a very important role in stimulating technical progress and in raising productivity of labour. Their membership has increased for the last three years nearly four-fold and is now 800,000 members.

Other forms of drawing working people into the management of production, such as workers' meetings, conferences of most active members of trade unions and economic bodies, branch and inter-branch production and technological conferences, systematic activities of production and technological as well as technological and economic councils set up at the

NOTES

enterprises, institutions, economic councils, ministries and departments are also extremely popular in the country.

Great number of rank-and-file workers take part in the activities alongside with prominent scientists and leading engineers.

Profitable work of an enterprise and over-and-above the plan accumulations are the result of creative activities of its workers and employees, their effective participation in managing the production, profits, in their turn, provide resources for the factory fund.

From four to six per cent of planned profits depending on the branch of production and from 20 to 50 per cent of profits in excess of the planned figure are credited to the factory fund.

The fund is spent on modernisation of operating machinery; on the expansion of production, on housing and repairs, on improving cultural facilities and general amenities, as well as on bonuses for the workers, office employees and engineers, on accommodations at holiday resorts, grants and benefits for workers.

These funds are spent by the management only with the consent of the trade union committee.

For example, out of 1,600,000 rubles credited to the fund of the Krasny Oktyabr confectionary factory 800,000 rubles spent on the improvement of cultural facilities and amenities, on booking accommodations at holiday resorts for its workers and employees.

At the Yava Tobacco Factory 550,000 rubles out of the factory fund were spent on housing, grants and benefits for workers.

One of the most important acts of the Soviet Government in a series of economic undertakings aimed at raising the level of the national economy and labour productivity will be the completion of the programme of switching-over to a six and seven-hour working day for workers and employees in all branches of the Soviet national economy. The undertaking is another step forward in the further improvement of working conditions and living standards of the Soviet people. It enjoys active support and participation of the working people as the change-over to a six and seven-hour working day will not affect the wages; they will not go down, but on the contrary will be somewhat raised.

This will be achieved through the introduction of new machinery and progressive technology, through the improvements in production technique and organization considerable part of which is introduced by the workers themselves who introduce higher work and pay rates, as well as by considerable sums granted by the State.

The main aim of socialist production is maximum satisfaction of the ever growing material and cultural requirements of the whole society. In the Soviet Union workers and employees besides their wages have a number of other incomes and free-of-charge services which considerably raise their living standard.

Supervision of all kinds of benefits and grants paid out to the working people in our country is implemented by trade unions. Their responsibilities have been considerably increased lately due to the extension of rights of factory and plant committees.

The Regulation of rights of factory and plant committee approved by the Presidium of the Supreme Soviet of the USSR in July, 1958 creates for trade union most favourable conditions for discharging their duties.

In accordance with the Regulation trade unions committees take an active part in drafting production and capital construction plans, organize socialist emulation, sum up results and move suggestions before the higher

economic and Soviet bodies on the questions of the work of their respective enterprises.

The trade union committees enjoy extensive rights in setting up work rates, norms and wages. The management may set up tariff rates on various operations, give higher qualifications to workers, set up new norms and revise old ones, introduce wage scales only by agreement with factory or works committees.

The factory and works committee is also invested with broad authority to supervise labour protection and observe labour legislation. It has its representatives in the acceptance committees when new workshops and sections are put into operation. The management cannot dismiss workers or employees without consent of the trade union committee.

The broad functions of the factory and works committee are strengthened by the ample powers granted to the committee to raise before a higher trade union body in cases of necessity the question of dismissal or punishment of managerial executives who failed to fulfil their obligations as to the organization of labour and wages, labour protection and safety.

The Regulations run to the effect that the factory and works committee is to state their view on candidates promoted to the leading executive posts by the management.

The Soviet State pays considerable attention to health protection and medical service of the working people. The entire population of our country enjoys free medical service. Workers, employees and members of their families are sent to health and holiday resorts and the children to summer and winter camps at the expense of the state social insurance fund. They receive their accommodations at the health and holiday resorts either free of charge or paying only 30 per cent of the price.

Considerable part of these funds goes to provide for medical dietary, temporary disability benefits, paid holiday and maternity leaves. At present a maternity leave in the Soviet Union is 112 days—56 before giving birth and 56 after.

Feeding mothers are granted breaks during the working day to feed their babies for which they get full pay.

Besides allocations for state social security there are state grants for mothers of many children and for single mothers.

To keep an eye on the work of health and children establishments and on correct distribution of benefits and grants among workers and office employees social insurance councils are elected within the trade union committees from active workers and employees.

Extensive housing construction is underway in the Soviet Union. The Government shows concern that the rent was not a burden on workers' income.

Average expenditure on rent and communal services do not exceed 4 to 5 per cent of the worker's budget.

Housing and welfare commissions formed of workers and employees display constant care for the improvement of the working people's living conditions.

In the Soviet Union education in secondary and higher schools is free of charge. Students of institutes and technical schools receive stipends. There is also an extensive network of free-of-charge vocational schools.

Workers and employees are granted annual paid holidays from two weeks up to two months.

NOTES

The Soviet old-age pension scheme is the best in the world. Old-age pensions are normally given to men at 60 and to women at 55. Workers employed underground or doing heavy and harmful work are granted pensions at 50-55 (men) and 45-50 (women). Old-age pensions are minimum 300 rubles and maximum 1,200 rubles a month. Pensions are given by special commissions of local City Soviets members of which are representatives of trade union committees.

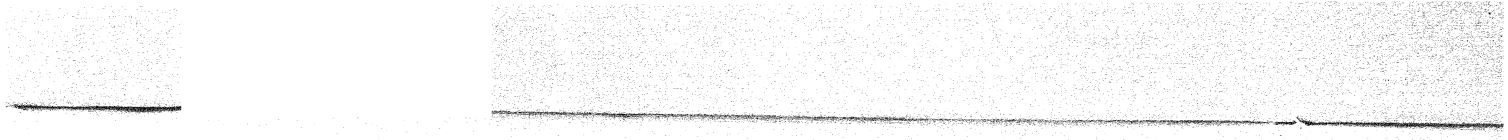
The new Foundations of Labour Legislation in the USSR published recently in the press is the paramount act of the Soviet State. Among other clauses it contains sections dealing with trade unions and stressing their important role in drawing workers and employees into the management of production.

You can gather from this paper that workers and office employees in the Soviet Union possess considerable, practically unlimited rights in the management of state enterprises, which they utilize to the full. For many this participation in the management of their respective enterprises becomes a school of future running the state. On the other hand, through this system they bring their influence to bear upon the activity of state enterprises and upon the development of the national economy as a whole.

There is no more responsible and honourable task for Soviet workers and office employees, than that of participating in the management of the affairs of their country.

Constantly improving and perfecting their management of economic and cultural construction the working people of our country create every condition for further prosperity of our country.

New India Press, New Delhi.



SEMINAR ON

MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

SPONSORED JOINTLY BY
THE GOVERNMENT OF INDIA
AND
THE UNITED NATIONS

REPORT OF THE SEMINAR ON ORGANIZATION AND ADMINISTRATION OF PUBLIC ENTERPRISES IN THE INDUSTRIAL FIELD

NEW DELHI, INDIA
1-11 DECEMBER 1959

Seminar Paper No. 81



ECONOMIC COMMISSION FOR ASIA AND THE FAR EAST
COMMITTEE ON INDUSTRY AND TRADE

Seventh session

REPORT OF THE SEMINAR ON ORGANIZATION AND ADMINISTRATION OF PUBLIC ENTERPRISES IN THE INDUSTRIAL FIELD

Contents

		Page
I.	Introduction	1
II.	Trends in the development of public enterprises in the industrial field	3
III.	Types of organization suitable for public undertakings ..	6
IV.	Organizational relationships within the governmental structure	12
V.	Financing of public enterprises	14
VI.	Commercial and economic aspects of public enterprises ..	18
VII.	Problems of internal administration	23
	A. Recruitment and employment of personnel : conditions of employment	23
	B. Managerial policy and relationship	25
VIII.	Public understanding	28
IX.	General	28
	Appendices	
	1. List of participants	29
	2. Agenda	32
	3. Annotated agenda	32
	4. Guide to documentation	35
	5. Check list of documents	38



I. INTRODUCTION

ATTENDANCE

1. The United Nations Seminar on Organization and Administration of Public Enterprises in the Industrial Field was held in Rangoon, Burma, from 15 to 26 March, 1954.

2. The Seminar was sponsored jointly by the United Nations Economic Commission for Asia and the Far East, the United Nations Technical Assistance Administration and the International Institute of Administrative Sciences. The Government of the Union of Burma acted as host for the Seminar.

3. The Seminar was attended by representatives of Burma, Cambodia, Ceylon, China, France, India, Japan, Pakistan, the Philippines and the United Kingdom of Great Britain and Northern Ireland. It was also attended by observers from Israel and the Union of Soviet Socialist Republics.

4. Also present were eight United Nations TAA consultants from various countries outside the ECAFE region whose services had been specially secured for the purpose of exchanging views and experiences with the representatives of countries of the region.

5. A complete list of delegations, observers, consultants and United Nations personnel is given as appendix 1 to the report.

OPENING ADDRESSES

6. Mr. LOKANATHAN (Executive Secretary of ECAFE) welcomed the delegates to the Seminar. He stated that in an endeavour to step up the rate of economic development, and thereby to expedite the raising of living standards, many countries of Asia and the Far East had chosen active participation by government in economic activity. As a result, the activities of governments had been extended from the hitherto established field such as posts and telegraphs and communications to fresh fields such as industry, marketing, trade and agriculture. The results of the actual operation by governments of many industrial and economic enterprises in this area had revealed both the weaknesses and potentialities of such enterprises. There was therefore a sense of urgency in the countries of the ECAFE region to find appropriate means of coping with the problems connected with the organization and administration of public industrial enterprises. There was fear lest any inefficiency of government-owned enterprise might lead to mishandling of developmental problems and thereby halt economic development. There was also a fear that any failure of a public enterprise might ultimately create an adverse climate not only for public enterprise, but also for private enterprise in its continuing and important role in the economic development of these countries.

7. He extended a warm welcome to the United Nations TAA consultants who had come from many parts of the world to participate in the Seminar. He stated that the consultants had a vast experience upon which

the delegates might draw and that through them it should become possible to bring to the countries of the ECAFE region the best of the experience of countries elsewhere in the world. Some of these experiences would suggest the policy and organizational patterns which were desirable. Other experiences no doubt also would show the policies and organizational relationship to be avoided.

8. The Executive Secretary stated that the Seminar would not be concerned with the question of relative merits of public and private enterprise, but that discussion would be focussed upon the ways by which the organization and administration of public enterprises might be improved in order that they might be able to serve the interests of the community.

9. Mr. LAVES (Secretary-General of the Seminar) stated on behalf of the International Institute of Administrative Sciences that the institute, an international, non-governmental, professional organization established in Brussels, had long been concerned, as evidenced by its publications and conferences, with many of the questions of organization and administration that were to be discussed in the Seminar. The IIAS had sought to bring to the Seminar the results of systematic study of some of the problems involved as well as the record of experiences in various countries. Moreover it had included material on research into human relations which had begun to point the way to new means by which human energies could be most effectively released and yet mobilized toward the attainment of common purposes in industry, whether public or private.

10. The problems of public industrial enterprises which were on the Seminar agenda constituted a special challenge to the educational institutions of the countries of the ECAFE region concerned with training for public service and for leadership in the economic and social fields.

11. Mr. Laves pointed out that unless and until the kinds of issues raised in the agenda were courageously faced, as the countries proposed to do in the Seminar, and then were equally courageously dealt with, the outlook for the welfare of the people must remain uncertain. Furthermore, unless these problems were faced in the perspective of the many dynamic forces currently at work in the rapidly evolving social systems of the ECAFE region, the solutions were likely to be disappointing if not deceptive. Indeed it might be said that for this very reason, the Seminar agenda bore a direct relation to factors determining the future stability of the countries of the region. In conclusion he expressed the view that the growing concern in the region for improving governmental organization and administration, as evidenced in the convening of this Seminar, gave special hope for the progress of economic development and the introduction of technological changes in the ECAFE region.

12. U WIN (Minister for National Planning and Religious Affairs of the Union of Burma) extended a warm welcome to the delegates and consultants and to the United Nations personnel participating in the Seminar, and he expressed his keen interest in the work of the Seminar. He stated that a number of countries in the region, having won their national and political independence, were at present applying their energies to the achievement of rapid economic development with a view to securing a higher standard of living and fuller employment. In their endeavour to expedite the raising of living standards and to improve the social welfare of the people, these governments had to shoulder responsibilities which formerly lay outside the sphere of the administration. The Government of the Union of Burma had established a number of development corporations, such as the Agriculture and Rural Development Corporation, the Mineral Resources Development Corporation and the Industrial Development Corporation, in order to give effect to its various development schemes. Similar action was being taken in other countries of the region.

13. The minister pointed out that in the field of industrial development, one of the most important problems facing governments was that of the organization and administration of the various industrial enterprises

set up by the State. Given the necessary modern equipment and the necessary supply of raw materials there still remained the important task of providing the newly established factories and organizations with trained personnel and skilled management in order to make those public enterprises efficient and better able to serve the interests of the community. This had become, in recent years, a problem of great and growing importance to countries of the ECAFE region.

14. The minister was confident that in the healthy atmosphere of friendship, informality and pooling of resources obtaining in the Seminar, the representatives from countries of the region would be able to benefit by the experience of those from the various countries of the world, and be able to find practical solutions to the various problems facing them.

VOTE OF THANKS

15. Mr. FERNANDO (Ceylon) expressed the appreciation of the delegations for the efficient arrangements made by the Government of the Union of Burma and for the warm and inspiring address of welcome by the Honorable U Win and proposed a vote of thanks. Mr. GEOFFROY-DECHAUME (France) joined in the proposal. The vote of thanks was carried by acclamation.

ELECTION OF THE CHAIRMAN AND VICE-CHAIRMAN

16. On a proposal by Mr. FERNANDO (Ceylon), seconded by Mr. GEOFFROY-DECHAUME (France,) U AUNG SOE (Burma) was unanimously elected Chairman. On a proposal by U TIN PE (Burma), seconded by Mr. CHAMROEUN-BUNROEUN (Cambodia), Mr. PETER OLIVER FERNANDO (Ceylon) was unanimously elected Vice-Chairman.

ADOPTION OF THE AGENDA

17. The provisional agenda (Seminar paper No. 1) was adopted without amendment (see appendix 2).

ADOPTION OF THE RULES OF PROCEDURE

18. The rules of procedure of the Economic Commission for Asia and the Far East and Committee on Industry and Trade were adopted as applicable to the Seminar.

CREDENTIALS

19. The credentials of the delegates and observers were examined by the Chairman and Vice-Chairman and were found to be in order.

ADOPTION OF THE REPORT

20. The report was adopted by the Seminar on 26 March 1954.

CLOSING OF THE SEMINAR

21. The Seminar concluded with votes of thanks to the Chairman, the Vice-Chairman and the host government.

II. TRENDS IN THE DEVELOPMENT OF PUBLIC ENTERPRISES IN THE INDUSTRIAL FIELD

22. The Seminar considered the ECAFE Secretariat paper summarizing "Trends in the Development of Public Enterprises in the ECAFE Region" (Seminar paper No. 21). The Seminar also considered the following papers received from the countries of the ECAFE region which bore specifically on this agenda item: "Public Enterprises of Ceylon" (Seminar paper No. 32), "Public Enterprises of China" (Seminar paper No. 33) and "Organization and Administration of Public Enterprises in the Union of Burma" (Seminar paper No. 35).

NOTES

MOTIVES FOR THE ESTABLISHMENT OF PUBLIC ENTERPRISES

23. Throughout the ECAFE region governments are anxious to speed up economic development in order to raise the standard of living. To this end they resort to public enterprise, which usually develops under the influence of one of three factors. The first and probably the most important is lack of private investment capital. In many countries outside and inside the ECAFE region, governments have been compelled to develop resources and enterprises in the national interest when private capital is unable or unwilling to provide the necessary investment. Important examples are the development of railways, road transport, airlines and power resources. The second reason is a political and social philosophy of public control over national resources. Examples are the post-war nationalization measures in the United Kingdom and France as well as the recent creation of some public enterprises in the ECAFE region. Thirdly, there is the type of public enterprise which may be called government enterprise by default. In many cases, especially in Europe, governments had to save important insolvent enterprises or maintain employment in a period of depression by taking over shares and often the control of an industrial enterprise. This has led, in such countries as Germany or Italy, to hundreds of scattered government holdings in a variety of enterprises. This last type is on the whole a haphazard and undesirable form of government enterprise.

24. The Seminar considered that a scrutiny of the motives for the establishment of public enterprises would help governments in the ECAFE region to clarify their purposes in planning.

FIELDS OF PUBLIC ENTERPRISE

25. There are a number of fields in which public enterprise has established itself as the appropriate instrument. The classic fields of public enterprise are certain basic utilities, such as transport of national significance, the development of power and water resources and the conservation and utilization of forests.

26. In manufacture, the role of the State is more limited and less prominent than in basic utilities. In some countries, governments are compelled to operate a factory sometimes because wartime circumstances or other emergencies make it imperative for the State to produce a certain commodity. Examples are the government factories producing synthetic rubber in the United States and Canada. In the countries of the ECAFE region, governments may often have to sponsor certain manufactures (*e.g.*, the Government Spinning and Weaving Factory in Burma) because there is no private capital or organization available. But by and large, governments generally regard direct responsibility for manufacture as exceptional rather than normal and they often tend to look for ways of transferring responsibility to private interests sooner or later. In fact, in Ceylon, proposals are under active consideration for the eventual transfer of departmental industrial undertakings to private ownership.

PUBLIC REGULATION

27. There are many instances, in various parts of the world, of public regulation of private production and prices without direct government participation. This is particularly the case in agricultural production both in Europe and in America.

MONOPOLISTIC AND COMPETITIVE GOVERNMENT ENTERPRISES

28. Outside the ECAFE region, both monopolistic and competitive government enterprises are in operation. The British and French nationalized industries are statutory monopolies in such fields as coal mining, gas, electricity and transport. In most countries, electric power generation is also a government monopoly, but in the United States public power and private power compete strongly. Limited competition exists, for example, in Australia where a government airline and private airlines operate side by

side under common supervision, and in Canada where government and private railway systems similarly operate under common public control over tariffs. Even where government enterprise has a monopoly and can in theory regulate its prices so as to make a profit, it is usually compelled by law and fact to consider the public interest and to keep prices as low as possible.

GOVERNMENT-CONTROLLED CO-OPERATIVES

29. In the ECAFE region there is considerable development of government-sponsored co-operatives. These co-operatives are in effect public development schemes in which the government organizes and co-ordinates various interests (*e.g.* producers, retailers, consumers) and makes capital advances, controls profits or maintains other controls.

PARALLEL OWNERSHIP AND BALANCED ECONOMY

30. Many governments in the region have planned to develop a well-balanced mixed economy based on parallel ownership of industries. The public sector, while being swiftly widened, attempts to integrate itself with the private sector. Instead of duplication or overlapping, the two sectors have operated and developed hand-in-hand in a closely integrated economy. The State steps in by filling the gaps in the structure of industry and by providing the base for later developments. The governments are mostly interested in setting up new enterprises which are vitally needed by the economy.

31. In India, where there is substantial capital in private hands, the government would be relieved if private capital would venture into industries according to the priorities demanded by development. The official opinion was well expressed by the Prime Minister of India in an interview on 21 August 1949. Referring to the undertakings under private control, he said: "As long as these industries are kept going and are employing many people, we would rather use our resources for developing new projects and employing more people. If these industries are well managed privately, we see no need for nationalization at any time". All that is pleaded for is that private enterprises should move in directions which will be compatible with as well as conducive to the larger interests of the nation. A similar policy has been evolved in some other countries of the ECAFE region.

CONCLUSIONS

32. The Seminar emphasized the need for a basic though flexible plan in relation to public enterprise in the countries of the ECAFE region. Governments should as far as possible decide, on the basis of their resources, economic needs, public opinion, social policy and such other matters, which sectors of economic life they propose to develop or maintain under *permanent* public control, which sectors they propose to leave to private enterprise and which sectors they propose to develop initially by public enterprise for eventual transfer to private interests.

33. It should however be borne in mind that proposals to transfer public enterprise either completely to private ownership or into partnership with private enterprise is not likely to be successful. Private capital does not view sympathetically the government investment in social welfare expenditure which is sometimes found in public enterprise. This heavy expenditure may limit possibilities of high dividends which private enterprise normally expects. The experience of Turkey illustrates this point.

34. It will be necessary to devise a special form of organization which will provide for public investment and at the same time give security to the private interests involved.

35. It was also considered that where it was decided to invite capital either alone or in partnership with government, reasonable security for investment should be provided.

36. It was further considered that it was proper and inevitable that political ideologies and social sentiment should play an important part in the determination of the area of public enterprise. The experience of Western countries shows that enthusiasm for public enterprise must not be allowed to obscure the hard core of practical problems which remain whether the enterprise is public, private or mixed. Public enterprise does not by itself solve the problems of economic efficiency, of price policy, of labour relations, of management and personnel, and many others. It was considered that the governments of the ECAFE region would avoid many disappointments if they educated the public in these problems.

III. TYPES OF ORGANIZATION SUITABLE FOR PUBLIC UNDERTAKINGS

37. The Seminar considered the ECAFE Secretariat paper summarizing the experiences in the countries of the ECAFE region on types of organizations (Seminar paper No. 22) and the basic discussion paper (Seminar paper No. 12). It also considered the country experience paper prepared by India (Seminar paper No. 37) on the subject. In addition, a large number of memoranda from outside the region, as listed in the guide to documentation (appendix 4), were placed before the delegates.

38. It was observed that the main types of organization in use in countries of the ECAFE region were:

(*a*) Organizations managed on government departmental lines

(*b*) Organizations managed by a board or committee

(*c*) Public corporations

(*d*) Mixed-ownership corporations.

DEPARTMENTAL MANAGEMENT

39. Initially, no distinction was drawn between public enterprises and traditional government functions. For this reason, the oldest public enterprises such as the postal service, tobacco, match, and salt monopolies, telegraph service and in some cases, railways, are generally organized, financed, and controlled in much the same way as any other central government department or bureau. This form of organization is still commonly employed when the main purpose of the enterprise is to provide revenue, as with the tobacco monopoly in Austria, France and Italy, or to control consumption, as with liquor monopolies in a number of States in the United States and Canada. In Ceylon, the salt, railway and post and telegraph services are run as commercialized institutions at departmental level.

40. The principal characteristics of this form of organization are as follows:

(*a*) The enterprise is financed by annual appropriations from the Treasury and all or a major share of its revenues are paid into the Treasury;

(*b*) The enterprise is subject to the budget, accounting and audit controls applicable to other government activities;

(*c*) The permanent staff of the enterprise consists of civil servants, and the methods by which they are recruited, and the conditions of service under which they are employed, are ordinarily the same as for all other civil servants;

(*d*) The enterprise possesses the sovereign immunity of the State and cannot be sued without the consent of the government.

41. While this type of organization appears to ensure the maximum degree of control by politically responsible officials, it falls far short of providing the flexibility essential to effective operations. It fails adequately to take into account certain distinguishing characteristics which clearly set industrial and commercial enterprises apart from the general run-of-government programmes: (*a*) the government is dealing with the public

in the manner of a businessman rather than a sovereign; (*b*) individual users, rather than the general taxpayer, are to pay for the cost of goods and services; (*c*) expenditures necessarily fluctuate with consumer demand and cannot be predicted accurately or realistically kept within annual budgetary limitations; and (*d*) operations are being conducted within areas in which there are well established trade practices. Under this form of organization, public enterprise has sometimes become synonymous with red tape, inadequate service, and insensitivity to consumer needs.

42. The basic difficulty is that most enterprises have operational and financial requirements which are incompatible with the normal governmental administrative and financial structure.

43. Use of the traditional form of government organization also tends to make it more difficult to operate an enterprise on a self-sustaining basis. Normal government activities are not expected to be self-supporting and ordinarily are financed out of general tax revenues rather than from fees paid by individual users of the service. If fees are charged, they do not bear any direct relation to the cost of furnishing the service.

44. The main weakness of departmental management has been found to be that it is not conducive to initiative and flexibility. It has been observed that too many authorities have to be consulted and that officers at various levels often hesitate to take decisions, their area of authority not being clearly defined; the result is dilatory procedure. Furthermore, financial regulations which have been devised for the administrative activities of the government have often been applied to commercial activities with stultifying effects. Thus quick decisions are not taken, and the opportunity for a successful transaction is often lost.

45. Another weakness of this type of organization that has been noted in countries of this region is that sometimes there has been a tendency not to take seriously the losses that have been incurred. In many cases, continuous losses have been incurred because of the uneconomic size of the unit, and there has been no attempt to reorganize or even liquidate as would have been the case if the enterprise had been privately owned. The question is not so much whether government policy in continuing production is socially justifiable, but whether government itself or the public is fully cognizant of the reasons for continuance of the burden on the taxpayer.

46. While it is theoretically possible to endow an enterprise managed on government departmental lines with some degree of operating and financial flexibility, in practice it is always difficult to do so. As long as an enterprise is not clearly differentiated from other types of government activity, strong pressures will be brought to make it conform to all the standards of government regulations and procedures. A passion for uniformity is one of the characteristics of bureaucratic administration.

DEPARTMENTAL MANAGEMENT UNDER COMMITTEES OR BOARDS

47. Committees or boards consisting of the representatives of the various ministries are in some cases set up for departmentally run enterprises with a view to imparting flexibility and allowing for quick decisions. Thus, in Burma, there are the Spinning and Weaving Factory Board, the Tile Factory Board, and the Paper and Chemical Industries Board composed of representatives of the various ministries. In India, inter-ministerial committees were set up for the execution of the Bhakra-Nangal and Hirakud Projects. The need for such inter-ministerial committees arose because, at the stage of both planning and execution, the assistance, concurrence and sanction of several ministries were frequently required. Land had to be procured, water and electric power supply to be assured, railways or transport facilities to be installed, stocks to be purchased, and allocations of building and other materials to be arranged. The presence of representatives of the Finance Ministry on these committees or boards has facilitated quick decisions in regard to expenditure. In other countries, for example in Thailand, boards have also been established but not necessarily composed

of representatives of a number of ministries. In the recently reorganized Thai Airways Company, the Ministry of Transport and Communications and the Air Ministry are the only ministries represented on the board of directors.

48. With a view to curtailing delay in procedure regarding matters such as financial expenditure, employment, appointment and dismissal of personnel, the administrative and financial rules concerning government-owned enterprises have been revised in some countries. Instances of this nature are the relaxation of tender board procedure for the departmentally run State Cement Factory in Ceylon, and the delegation of powers to the railways in India. The culmination of this procedure is probably seen when any big commercial undertaking covering a whole country requires establishment of separate ministries or departments. When the scale of operation is substantial or nation-wide, these enterprises are run as separate departments or ministries. In Malaya, the management of railways has recently been entrusted to the Malayan Railways Administration, which has considerable independence in comparison with an administrative department. The legislation recently passed in Thailand for the establishment of an independent Railway Authority and Bangkok Harbour Authority reveals similar development. The operation of the Indian railways is probably unique in the region. The Indian Railways Department has its own financial, administrative and appointment procedure and its own accounting and auditing departments. Furthermore, the railways have been divided according to the various regions served by the lines and have a considerable degree of decentralization as regards operation. The Seminar observed that while these developments might be partly traced to the fact that formerly the various railways happened to be run by different companies, the experience had been useful and deserved notice by the countries of the region.

PUBLIC CORPORATIONS

49. With the rapid expansion in the number of government owned and operated enterprises, it became evident that a new institution had to be developed which could be clothed with the power of government, but which would possess the operating flexibility of private enterprise. The pragmatic and ready-made solution was to adopt the form of organization most commonly employed by large-scale private enterprise—the corporation. Use of the corporate device enables a government to create an agency which can act in its own name rather than in the name of the State. Over the past twenty-five years the public corporation has become the most common form of organization for public enterprises.

50. The principal characteristics of the public corporation are as follows:

(*a*) It is wholly owned by the State;

(*b*) It is generally created by or pursuant to a special law defining its objects, powers and privileges and prescribing the form of management and its relationship to established departments and ministries;

(*c*) As a body corporate, it is a separate entity for legal purposes and can sue and be sued, enter into contracts, and acquire property in its own name; corporations conducting business in their own name have been generally given greater freedom in making contracts and acquiring and disposing of property than other government agencies;

(*d*) Except for appropriations to provide capital or to cover losses, it is usually independently financed; it obtains its funds by borrowing either from the treasury or from the public, and through revenues derived from the sale of goods and services; it is authorized to use and re-use its revenues;

(*e*) It is generally exempted from most of the regulatory and prohibitory statutes applicable to the expenditure of public funds;

(*f*) It is ordinarily not subject to the budget, accounting and audit laws and procedures applicable to non-corporate agencies;

(*g*) In a majority of cases, employees of public corporations are not civil servants, and are recruited and compensated under terms and conditions which the corporation itself determines.

51. The chief advantages of the corporate form of organization for private enterprise—limited liability, pooling of investment, transferability of securities and perpetuity—have little or no significance for a public enterprise. The principal benefits of the public corporation as an organizational device are to be found in its freedom from unsuitable government regulations and controls and its high degree of operating and financial flexibility. The special powers granted to public corporations are designed to enable a government, when it undertakes to operate an industrial or commercial enterprise, to render service and discharge its obligations to the public as nearly as possible in the same manner as a private business. Freedom from restrictive statutes with respect to disbursements, contracts, purchases and personnel permit a corporation, where desirable, to follow standard commercial practice in carrying on its business. Expansion of facilities to take care of an unanticipated growth in business can be financed, without undue delay, by use of revenues or borrowings.

52. The public corporation has satisfied a very real need for a public institution which would possess some of the operating flexibility of private enterprise, but in doing so it has sometimes sacrificed public accountability. Existing controls to ensure responsiveness to direction by politically responsible officials have often been abandoned without adequate substitutes being provided. Public corporations do not function in a political vacuum. Removal of so-called political pressures may mean, in fact, that significant political power is being placed in the hands of a small, unrepresentative, and often self-perpetuating group controlling the public corporation. Public corporations are created to serve a public purpose, and so-called business decisions made by them are likely to have important political repercussions.

MIXED-OWNERSHIP CORPORATIONS

53. With a few exceptions, British, Canadian, American and Puerto-Rican corporations are wholly government-owned. Countries on the Continent of Europe have tended to favour the mixed-ownership corporation in which both public and private interests participate. The percentage of government holdings may range from 1 per cent to 99 per cent. Among early examples of mixed-ownership corporations in France are the *Compagnie Nationale du Rhone* and the *Energie Electrique de la Moyenne Dordogne*.

54. The principal characteristics of the mixed-ownership corporation are the following :

(*a*) The capital stock of the corporation is owned by both the government and private shareholders;

(*b*) Both the government and the private shareholders generally have the right to appoint directors of the corporation;

(*c*) It may be created by a special law or pursuant to general laws authorizing the establishment of private corporations;

(*d*) As a body corporate, it is a separate entity for legal purposes and can sue and be sued, enter into contracts, and acquire property in its own name;

(*e*) It obtains its funds by the sale of stock to the government and the public, by borrowing either from the Treasury or from the public, and through revenues derived from the sale of goods and services;

(*f*) Even to a greater degree than the public corporation, the mixed-ownership corporation is generally exempted from the personnel, budget, accounting and audit laws, and procedures applicable to non-corporate agencies.

55. Because of the blending of public and private ownership, mixed-ownership corporations present unique and extremely difficult problems of organization and control. Efforts to devise suitable controls and procedures to secure public accountability have been considerably less successful than in the case of the public corporation. It has been argued that the mixed-ownership corporation affords few advantages which could not be better obtained under either a private corporation—with perhaps some financial assistance from the government in the form of loans or subsidies—or a wholly government-owned public corporation.

OPERATING CONTRACTS

56. A comparatively new device for the administration of public enterprises is the operating contract. The government enters into a contract with an established private company for the management of a public enterprise and agrees to reimburse the contractor for all costs which he incurs. The contractor is compensated for his services by a "fixed fee" which is arrived at by negotiation. Within the terms of the contract, the contractor is given full authority to employ and dismiss personnel, determine rates of compensation, purchase supplies and equipment, determine operating policies, etc. Statutes applicable to government agencies do not apply to the contractor and employees hired by the contractor are not considered to be public employees. Thus, the contractor is able to operate the enterprise in much the same way as he would if it were a subsidiary of his private company.

57. Operating contracts are utilized extensively in the United States by the Atomic Energy Commission and the Department of Defense. The Atomic Energy Commission does not itself engage in any operations but contracts with such companies as Du Pont and General Electric and various universities and non-profit organizations for the operation of its plants and laboratories. The Department of Defense has entered into similar contracts for the operation of arsenals and laboratories.

58. The principal advantage of the operating contract is that it makes available to the government the management skills and "know-how" of private industry. It provides for a much greater degree of flexibility in procurement, planning and staffing than is ordinarily obtainable even under a public corporation.

59. Use of the operating contract, however, raises a number of basic issues of public policy. The element of competition is usually absent, so that the government cannot rely on conventional economic incentives to ensure that contractors operate with maximum efficiency and economy. Once an enterprise has been turned over to a contractor, the government has little effective leverage in influencing his policies. The principal sanction available to the government, termination of the contract, is so drastic that it can be used only in extreme circumstances. Termination would mean a complete breakdown in the programme until a new contractor or the government could take over the operation of the enterprise. It is evident that new techniques for supervising this type of contract have to be developed.

60. Another problem relates to personnel policies. Personnel employed by contractors are generally compensated at a higher rate than direct government employees engaged in comparable activities. The government is sometimes placed in a position where it cannot successfully compete with its own contractors for scarce skills.

CONCLUSION

61. Forms of governmental organization inevitably vary from country

to country, and constitutional and historical factors often introduce special organizational features which are not exportable. It cannot be said that any one form of organization is best for administration of public enterprises in all countries and under all circumstances. All factors need to be weighed in selecting the form of organization for a particular enterprise, including the nature of the programme, operating and financial requirements, impact on the national economy, types of operations, and the political climate of opinion.

62. While the public corporation has demonstrable advantages over the traditional government form of organization for enterprise administration, it should not be employed indiscriminately. Despite the fact that the corporation is wholly unsuited to the normal types of government operations, it has sometimes been employed for this purpose merely to avoid irksome restrictions. The practice in the United States is to limit use of public corporation to programmes which (*a*) are predominantly of a business nature; (*b*) are revenue-producing and potentially or substantially self-sustaining; (*c*) involve a large number of business-type transactions with the public; and (*d*) require greater flexibility than the customary type of appropriation budget ordinarily permits.

63. The type of organization chosen for public enterprises can, if the choice is bad, obstruct good administration; if the choice is good, it can promote good administration, but the type of organization chosen can never by itself guarantee good administration. This is dependent on many other factors, especially the quality of the personnel.

64. Departmental administration has been widely used and proved successful for a considerable number of government enterprises. Prominent among them are postal services (which have traditionally been operated in many countries as government departments), railways and forestry.

65. For a successful management of a complex public enterprise by a government department, it is however essential that the department concerned should have: firstly, financial flexibility and the use of at least part of its revenue; secondly, a specialized staff with a tradition and *esprit de corps* of its own; and thirdly, commercial accounting.

66. The size of the enterprise and the administrative flexibility of the civil service are further important factors. Small-scale and single-purpose enterprises are more easily managed by government departments than complex and multi-purpose enterprises, but this factor can only serve as a general indication.

67. The Seminar recognized the necessity of giving a warning against attaching too much significance to names. In some countries, a public corporation despite its name may be as rigidly controlled as a government department. Attention should always be directed to the substance rather than to the name, and in particular to the question how far the statute setting up the corporation, and the practice developing under this statute, confer upon the corporation substantial managerial autonomy, financial independence and commercial flexibility.

68. The joint stock company operating under a civil or commercial code is very widely used in many countries for enterprises either wholly or partly owned by the government. Its use is, however, in many cases, the result of accident or improvisation. This is especially so in many European countries where the government has taken over existing enterprises wholly or in part in response to an emergency. In other cases, especially in Italy, the joint stock company device has also been used for newly established public enterprises entirely owned and controlled by the government. In these cases, little more than the shell of the company remains. Such rights of the shareholders as the right to decide on dividends, the right to appoint directors or auditors, and other matters, are usually reserved to the government. In such cases, the Seminar felt that it was far better to establish a public corporation which did not pretend to be a joint

stock company and whose constitutional position towards the government was clearly regulated.

69. The joint stock company of the commercial type has, however, its definite use in some other situations, for instance:

(*a*) For genuine joint ventures of public and private interests (for example, where a government wishes to operate an industrial enterprise with some participation of foreign firms or private national interests, or where it wishes to open up participation in the enterprise to members of the public);

(*b*) For flexibility of operations including such matters as purchase of raw materials, disposal of manufactured goods, use of liquid funds, elimination of delays and red tape associated with financial control in government departments and disciplinary control over the staff;

(*c*) When different public authorities combine in a joint venture; it may then be useful to have the interests determined by shares;

(*d*) When the government sets up an enterprise with the definite prospect and intention of disposing of all or part of it to private interests or to the public;

(*e*) When a public holding company is formed by the acquisition of interests in a number of different enterprises, public, private or both; it is often convenient, in this case, for the holding company to acquire shares in the enterprises.

IV. ORGANIZATIONAL RELATIONSHIPS WITHIN THE GOVERNMENTAL STRUCTURE

70. The Seminar considered the basic discussion paper on the subject of organizational relationships within the governmental structure (Seminar paper No. 13).

71. It was noted that the main problem was to safeguard the national interest without encroaching upon the administrative independence of the organization or depriving it of managerial responsibility. A clear distinction should therefore be drawn between questions of policy and of administration, the former being the responsibility of the government and the latter of the organization. This distinction is generally acknowledged by governments in the countries of the ECAFE region although in practice it may not have been strictly observed.

72. Organizational relationship will be reflected in the location and nature of controls over public enterprises. The substance of control is generally to be found in:

(*a*) The law, charter or other document establishing the public enterprise;

(*b*) The relationship with existing departments and ministries;

(*c*) The extent and nature of ministerial control;

(*d*) The method of appointing and removing the governing board and executive officials;

(*e*) The budget;

(*f*) Audit;

(*g*) Annual reports;

(*h*) The relationship with the legislature;

(*i*) Ownership.

The most critical point of control is the law, decree or other basic authority providing for the creation of a public enterprise. The nature of this instrument is likely to determine in large measure all other organizational relationships. . Generally, public enterprises are established by a separate law setting forth in detail the name, legal status, duration, programme, general and

specific powers, form of management, ministerial authority and method of financing the enterprise. In a number of instances, however, enterprises have been created either by executive decree—sometimes pursuant to authority conferred by general incorporation laws applicable to private enterprise—or by existing public enterprises utilizing the broad powers conferred upon them by law.

73. Creation of public enterprises by special legislative act appears to be clearly preferable to the other alternative methods. It is the only method which provides for thorough scrutiny and approval by the legislature and executive of the objectives and scope of the undertaking, and for a clear definition of legal status, obligations, powers and organizational relationships.

74. All the countries participating in the Seminar agreed that such organizational relationships within the governmental structure should be so established as to ensure public accountability and consistency in public policy without impairing the financial and operating flexibility required for the successful conduct of a public enterprise. The view was expressed that the relationship of a public enterprise with the Parliament or Congress, the Cabinet or the Head of the State and existing departments and ministries, should be defined in such a way as to focus responsibility, facilitate co-ordination with related programmes, and ensure consistency in overall policy.

75. Discussion was focussed on the following major questions:

(*a*) Should a minister have authority to issue both general and specific directives to the board of directors of a public enterprise?

(*b*) Should a minister serve as chairman or a member of a board?

(*c*) What should be the size and composition of a board?

(*d*) How can interference by the administrative ministry in the day-to-day operations of the enterprise be avoided?

(*e*) Should the appointment and dismissal of the chief executive officer of the enterprise require the approval of the minister?

(*f*) Should enterprises be grouped under appropriate ministers or a holding company?

76. A number of countries of the ECAFE region authorize ministers to issue both general and specific directives to the boards of public enterprises. The general practice outside the region in such countries as the United Kingdom is to limit ministerial intervention to matters related to national policy. Attention was called to the fact that the board could not properly be held accountable for the success of the enterprise if it were subject to specific direction by the minister. Furthermore, such intervention would be likely to inject purely political considerations into the business affairs of the enterprise.

77. Much the same considerations would generally apply to the question whether a minister should serve as chairman or a member of the board. Among the arguments against such a practice noted by the Seminar were (*i*) that if a minister served on the board, he could not avoid detailed parliamentary questioning concerning day-to-day operations; (*ii*) that the minister would be diverted from his other ministerial responsibilities; and (*iii*) that if the minister appointed the members of the board, he would inevitably dominate its deliberations since the other members would be his subordinates.

78. A group of questions relating to the size and composition of boards drew suggestions that five to seven seemed to be an appropriate number, except for a very large enterprise. The importance of personal indentification with the enterprise, at least for some members of the board, and the desirability of avoiding representation of special interests on the board were emphasized. The general view was expressed that functional boards were, as a rule, undesirable. It was noted that the trend in the

United States was to utilize single administrators and advisory boards, rather than operating boards, for the management of public enterprises. It was the consensus that members of Parliament should not be allowed to serve on boards of public enterprises because of the fundamental differences between executive and legislative functions and responsibilities.

79. General suggestions were offered by the Seminar for preventing interference by the ministries in the day-to-day operations of the enterprise. The act setting up the public enterprise should itself provide safeguards. It was pointed out that this tendency to interfere was primarily due to financial causes, and that this interference could be eliminated only by the development of tradition.

80. In a number of countries, both within and outside the ECAFE region, the appointment and dismissal of the chief executive officer of an enterprise is subject to ministerial approval. The Seminar considered that the right to appoint the chief executive officer might properly be included in the powers of the minister in a public corporation; but the question whether he should retain this right in a mixed corporation was debatable. The major objection to the proposal was that if the minister did retain this right in a mixed corporation, the chief executive officer might turn his loyalties to the minister and not to the board whom he was pledged to serve.

81. The Philippines asked the views of the Seminar on its arrangements for co-ordinating public enterprises. All the Philippine public corporations, except those concerned with lending and fiscal control, have been placed under an Administrator of Economic Co-ordination. It was pointed out that the administrator was placed in the untenable position of attempting to direct other officials with Cabinet rank. Furthermore, many of the activities placed under the administrator had nothing in common, except for the fact that they were organized as public corporations. It was suggested that either the corporations should be re-grouped under appropriate department heads according to their major purpose, or they should report directly to the President, with the Economic Co-ordinator acting in the capacity of staff adviser to the President on matters relating to public corporations.

CONCLUSION

82. Experience in many countries has demonstrated that it is possible to establish organizational relationships which assure public accountability without impairing the flexibility necessary for the effective conduct of a public enterprise. The choice is not merely between the equally unsatisfactory alternatives of treating public enterprises either as if they were private commercial companies or as traditional government activities. New types of relationships and controls have been developed which reflect the operating and financial requirements of commercial and industrial undertakings. While these new types of relationships and controls were designed in terms of the special conditions prevailing in a given country, they do provide useful guides for approaching the problem of public accountability. In the final analysis, however, each country must seek a solution compatible with its own government structure and local needs.

V. FINANCING OF PUBLIC ENTERPRISES

83. The Seminar considered the ECAFE Secretariat paper dealing with some aspects of financing of public enterprises in the countries of the ECAFE region (Seminar paper No. 24) and the basic discussion paper (Seminar paper No. 14) for this agenda item.

METHODS OF FINANCING

84. The two main methods of raising the much needed capital for the public enterprises are:

(*a*) National savings, including funds from taxation, forced savings, etc.;

(*b*) Foreign capital, either directly from foreign investors or through external loans from governmental or international agencies.

SAVINGS

85. In the countries of Asia, less than 5 per cent of national incomes are available for re-investment, and this rate, compared with the re-investment rates of 15 to 20 per cent in economically more advanced countries, is insufficient to raise the *per capita* product of an increasing population and may not even be sufficient to prevent it from falling. In Asian countries personal savings as well as savings of small businesses are negligible. Corporate savings have not yet become a significant factor in the development of these countries.

86. It was noted that government savings have so far not been too encouraging in some of the ECAFE countries. Heavy expenditures for defence and administration have taken up a great part of the revenue, leaving very little for capital formation. The Seminar suggested that government savings could be significantly increased if the tax system was expanded in the ECAFE countries.

DEFICIT FINANCING

87. Reference was made to the governments in this region having financed investments in excess of their savings, the deficit being primarily covered by borrowing. It was said that such borrowings represented only, to a minor degree, transfers of genuine savings from the private sector to the government. It was stated that while such deficit financing was sometimes necessary and desirable—for example, as in the recent experience of India, to offset deflation caused by the decline in raw material prices—caution should be exercised in having recourse to this method of financing. It was observed that this method might result in an overall increase of costs of public enterprises.

EXTERNAL FINANCING

88. The financing of economic development by private investors of some of the Western Powers has led to such developments as the Indo-Pakistan Sub-Continent Railways, and the mining and plantation industries of Indonesia, but has now ceased to a great extent with the growth of national governments in this region. The virtual disappearance of this class of investors has stopped the inflow of foreign private capital; in fact, capital invested in these countries has even been repatriated.

89. Having regard on the one hand to the urgent need for industrial and economic development of the countries in the ECAFE region, and on the other hand to the acute shortage of capital locally available for investment in this area and to the lack of any adequate flow of foreign capital to these countries for such development, it was considered desirable that a special study should be made of the reasons which had led to the prevailing shyness on the part of the foreign investor and of the steps that were required in order to stimulate and encourage the flow of capital from foreign countries—removal of such impediments as might stand in the way of investment in the countries of the ECAFE region, dissemination of information and other such practical measures.

90. The disappearance of foreign investment has been to some extent offset by grants and loans from governments and international agencies. The loans offered by the International Bank for Reconstruction and Development to the Government of Pakistan for the development of railways and the establishment of the Thal Agricultural Machinery Project, to the Government of India for its railway rehabilitation and multi-purpose river valley schemes, and to the Government of Thailand for improvement of transport facilities, have been of substantial help to these countries.

FINANCIAL ORGANIZATION OF PUBLIC ENTERPRISES

91. When a government starts a new enterprise, or even acquires one from private interests, there is a tendency to retain control over the enterprise as a departmental segment of government activity. The initial finances are provided by *ad hoc* budgetary allocations. The financial relationship between the government and the enterprise is invariably patterned by the normal rules applicable to ordinary departmental activity, and owing to the rigidity of these rules, no financial discretion to depart from convention and practice is allowed. Consequently, these enterprises are characterized by a lack of flexibility in planning and the avoidance of responsibility in taking customary business risks, except through the cumbersome machinery of governmental procedures. Moreover, some of these enterprises are not required to prepare balance sheets and profit-and-loss accounts and fail to present a picture of their operational efficiency. The exception found in Ceylon is referred to later.

92. Mainly for this reason, many governments have been interested in setting up statutory corporations or limited-liability joint-stock companies with various degrees of autonomy. In India, the need for this kind of organization was recognized as early as in 1947 when the Damodar Valley Corporation was set up under the Damodar Valley Corporation Act. The Government of India has recently set up some private limited companies in which the government is a majority shareholder. These companies are governed by boards of directors who are nominated by the government and are subject to government directive and policy. Even so, greater freedom has been given to the enterprises in the matter of day-to-day financial administration. These boards must, however, apply to the Central Government if they wish to increase their authorized capital, or to issue any unissued shares of the original authorized capital or to issue shares at discount. They must also secure the approval of the Central Government for any programme of capital expenditure which exceeds Rs. 2 million. The powers of these boards are also limited in the case of borrowing, issuing of debentures, winding up of the company, or any other matters which may be so important as to be reserved for the consideration of the Central Government.

93. The Seminar noted the advance account system devised by the Government of Ceylon. State enterprises are enabled to prepare balance sheets and profit-and-loss accounts of a type used in business houses though these enterprises are not actually converted into corporations or private limited companies. Under this system, Parliament each year passes a token vote in the estimates of the operating departments and the Treasury is authorized to make cash advances to the enterprise, subject to certain limits, in order to enable it to meet its working and recurring expenses. While expenses are debited to the advance account, incomes are credited to the same account, and the net profit, if any, at the end of the year is credited to the government. Capital expenditure is usually met from loan funds and a separate record is maintained. Instead of the system of depreciation being used, the amounts spent as capital expenditure are treated as a series of loans bearing interest which is charged against the revenue of the enterprise and on an annuity basis. To obviate this difficulty it is proposed to convert these enterprises into statutory corporations in two stages, first as public corporations and ultimately as mixed companies.

94. The experience of Ceylon has proved that the advances account as applied under commercial enterprises is hedged by government financial regulations and Treasury instructions affecting discretion, initiative and individual responsibilities.

95. The operation of public enterprises in Burma provides an interesting example of how public enterprises are financed out of special funds created for the purpose and are consequently independent in day-to-day financial matters to some degree. All public enterprises, from the inception, open and maintain funds; the initial loan granted by government as well as all the money received are credited to these funds. Similarly all

payments are made out of these funds. Even though all public enterprises in Burma submit their budget estimates to the Ministry of Finance and Revenue, this ministry, while it can cut the size of the total expenditure budget, cannot alter the intended end-use.

96. In the Philippines, a uniform charter has been prescribed for all corporations owned and controlled by the government. Under this charter, the boards of directors of corporations are allowed to approve, subject to the final action of the Administrator of Economic Co-ordination, the annual and supplementary budgets of the corporations which are submitted to the boards by the general manager.

CAPITAL STRUCTURE OF PUBLIC ENTERPRISES

97. The Seminar was of the opinion that the question of capital structure of public enterprises was of special significance in view of the fact that in many of these enterprises the share capital is jointly owned by the government and the private industries. The cases of both the Philippines and Pakistan, where development corporations have been established to assume leadership in national economic development, were noted. The National Development Company of the Philippines was set up to give help and assistance to private ventures by the issue of guaranteed bonds. Thus, while under the charter the National Development Company is required to have a majority interest in all subsidiary companies organized by it, it can at the same time purchase stocks in any corporations without acquiring a majority interest therein. The capital of the Industrial Development Corporation of Pakistan is not used for specific commitments in any industrial projects sponsored by it. It is expected that such funds would come from the government in the form of *ad hoc* budgetary allocations as well as from private entrepreneurs who desire to participate in the projects. The capital of companies sponsored by the corporation is first offered to the public for subscription, but the corporation is empowered to underwrite the whole or any portion of the share capital of these companies or subscribe on behalf of the Central Government any portion of the issued capital which is not subscribed by the government. It is however the intention of the government to transfer its acquired shares in the capital of any individual concern to private hands as soon as private investment is forthcoming.

98. In India, in the capital structure of most of the State-sponsored companies, the government owns a predominant interest. In Burma, the entire capital of the public enterprise is provided by the Central Government. The funds so provided are treated as a loan from the government which the corporation should repay as and when it becomes financially stable. It was noted that in the interesting case of the Union of Burma Airways, the initial capital of Rs. 5 million which had been provided as a loan had been repaid within a very short period because of the substantial profits made even in the first years.

99. The Seminar discussed the question whether parliamentary sanction was desirable for requests for an increase in the capital of public corporations. Experiences in various countries were reviewed and it was generally held that parliamentary sanction would be required though parliamentary debate should not interfere with the long-term planning of public enterprises. In this connexion, the experience of the United Kingdom Electricity Authority being given statutory sanction in the Nationalization Act to raise capital up to £700 million was cited. It was also stated that it was only after six years of operation that the Electricity Authority had to come before Parliament for additional capital.

BORROWING POWERS OF PUBLIC ENTERPRISES

100. In the Union of Burma a few of the State enterprises cannot borrow, lend, or raise capital from non-governmental sources. Some are allowed to borrow money, raise a loan, issue bonds, debentures and stocks guaranteed by the President of the Union and also obtain foreign credits on

terms approved by the government. The Industrial Development Corporation may borrow or lend during the period of any one financial year up to Rs. 1 million on its own initiative. For any amount exceeding this sum, the President's approval is required.

101. The opinion is widely held particularly in India and Ceylon, that if these enterprises are allowed to float loans, the government will lose centralized control of the entire field of public borrowing, and this would be contrary to the interests of the national economy as a whole.

CONCLUSION

102. The Seminar considered that State enterprises should have a certain basic freedom, the principal elements of which being:

(*a*) Freedom from the annual appropriation process, at the very least for operating expenses;

(*b*) Freedom to receive and retain operating revenues;

(*c*) Freedom to apply operating revenues to operating expenses;

(*d*) Freedom from general governmental restrictions, particularly in the field of expenditures;

(*e*) Freedom from normal governmental appropriation accounting;

(*f*) Freedom from normal governmental audit of operations;

(*g*) Freedom from central purchasing and contracting requirements.

103. The other relative freedoms, including the freedom to borrow money, freedom to appoint and dismiss personnel and regulate salary scales, freedom to plan, etc. were also regarded as important.

104. It was noted that the enjoyment of some of these freedoms might result in a loss of accountability at a time when it was necessary to ensure that all resources were used to the maximum extent for developmental purposes. The balance between the financial freedom of enterprises and central control was a delicate one requiring most careful consideration. It was considered desirable to develop a pattern of central guidance and control of public enterprise which, nevertheless, preserved the advantages of operational and financial initiative and freedom. This would entail the satisfaction of certain basic minimum needs including provision of adequate information for policy formulation, greater accountability in the use of public funds and the discharge of public responsibilities, and at least a limited authority for the Central Government to allocate resources to particular areas.

105. The Seminar considered that a few key types of control over the financial operations of enterprises were essential:

(*a*) A system of financial reporting on a set pattern summarizing past operations together with projections into the future;

(*b*) A central post-audit on various activities;

(*c*) Budgetary control over capital outlays.

106. It was considered that objectives of good business management combined with higher social economic purposes played a prominent part in this question. A deliberate policy of incurring governmental losses might be followed, if it were decided this would be to the national advantage.

VI. COMMERCIAL AND ECONOMIC ASPECTS OF PUBLIC ENTERPRISES

107. The Seminar considered the ECAFE Secretariat paper summarizing the experiences in the countries of the ECAFE region (Seminar paper No. 25) and the basic discussion paper (Seminar paper No. 15). In addition, information memoranda from outside the region as listed in the guide to documentation (appendix 4) were placed before the delegates.

108. As public enterprises have to operate in the limelight of public opinion, they are forced to adopt more rigorous commercial practices than similar private concerns. Though this practice may not always be followed, the traditions of responsibility for the expenditure of public money and the political consequences of exposure are powerful forces in that direction. As a result, the following practices are considered desirable for most public commercial enterprises:

(*a*) *Purchase by tender.* This is adopted to counter favouritism and price rings but is necessarily more cumbersome than purchases made by a freely operating purchasing agent.

(*b*) *Prompt payment.* Government machinery is often slow moving and it may seem wrong to suggest that this is an attribute of public enterprise. There are many suppliers who are prepared to give credit to a buyer as well placed as governments usually are. But it is equally true that failure to pay a bill in reasonable time, when the money is needed by a supplier, is held to be a more serious fault in the case of public than of private enterprise.

(*c*) *Limited credit.* In general, public enterprises are inhibited from giving long credit to purchasers just because credit transactions are more liable than any other phase of business to favouritism and criticism.

(*d*) *Limited selling and advertising.* As a rule, public enterprises are not in the highly competitive retail field and this problem does not arise. But when high selling and advertising costs are involved, they are subject to a good deal of criticism and are not generally adopted by public enterprises.

(*e*) *High degree of probity.* By and large, there is a more pressure on publicly-owned enterprises than on private ones for high standards of commercial conduct.

109. Many of the State enterprises in the countries of the region have been open to criticism because of the absence of machinery for the protection of consumers and it has been increasingly felt that the consumers as a group must, by closer co-operation and suggestions, help to improve the efficiency of these enterprises. Consumers' councils have not so far been developed to any large extent in the countries of the region. Some experience has been gained by India in the appointment of consumers' committees in areas where food grains have been rationed. In respect of railways, railway rates tribunals were developed some time ago whose duties are to examine all rates charged and receive representation from the users. In respect of particular industries, such as iron and steel, the Indian Tariff Board has recently investigated and examined what should be a fair price to the consumers, and on its recommendations, the government has fixed prices for such commodities. The sovereignty of consumers is considered to be so cardinal that it has been held that in respect of consumer goods industries, in the present stage of development, it is desirable to retain the competitive element by allowing both private and public sectors to operate in the same industry so that one may act as a check on the other.

110. The marketing organizations of State-owned enterprises can be improved to a great extent in countries of this region. For instance, it is not sufficiently realized that production without regard to the sale of the product is not to be encouraged. Advertisement, or attempts to popularize the products and thus attract consumers, have not been powerful enough in the majority of cases. Producing concerns do not establish sufficient contacts with ultimate consumers. The overheads in government-owned enterprises as compared with private enterprises are sometimes high and go to widen the margin between the costs of production and the final sale price to the consumers. The accumulation of stocks at every stage has also been experienced. These problems require early attention.

NOTES

111. Countries in this region often attempt to appraise the commercial policies of State-owned enterprises from a more than commercial point of view. The wider national and social purposes are taken into consideration. The development programmes in this region emphasize the social purpose which has motivated many of the economic activities of the State such, for example, as development of electric power, irrigation, mineral resources or new industrial fields. As a result, these projects have higher social overheads and service costs than are to be found in private enterprises.

112. It is, therefore, necessary that in appraising these enterprises the cost accounting should allow for factors which are primarily of social value accounting. It was felt that allowance for these factors which could be described as "social accounting" and which had been developed more scientifically in the western countries was worthy of study and application in the countries of this region.

113. The discussion was focussed on seven major questions which are set forth below.

(1) *Should a public enterprise be directed to make a contribution to public revenue? Should it make a profit or just cover its costs? If the latter, which costs?*

114. It was suggested that in analyzing this problem three different categories of public enterprises should be considered.

115. The first category includes those enterprises which work in a competitive market, as for example the Swedish Forestry Company. In this case, the public enterprise has to attempt to make profits in a commercial manner. It should not be in a worse, nor a better position than its competitors.

116. In the second category are public utilities, for example the Electricity Authority and the Gas Boards in the United Kingdom. These public utilities have to provide adequate, efficient and economic services for the benefit of the community as a whole, and they therefore operate on the basis of "breaking even" over a period of years after meeting all costs properly chargeable to revenue account.

117. The enterprises of the third category are what might be termed the financial monopolies, for instance the Swedish tobacco and liquor monopolies. The purpose of these monopolies is first of all to provide revenue in the form of indirect taxation which is in other countries provided by excise duties. There might also be a social purpose in maintaining high prices in so far as high price might restrict consumption.

(2) *Should the surpluses of public enterprises be:*

(*a*) *Credited to the central treasury?*

(*b*) *Ploughed back into capital formation?*

(*c*) *Used for reducing the prices of their products or services* [in the cases of (*i*) transport board, (*ii*) trading board, (*iii*) Production board]?

(*d*) *Used to increase prices to producers or wages?*

118. There seems to be fairly general agreement that the lack of capital in the ECAFE region makes it supremely important to use existing surpluses for capital formation and not for reducing prices of products and services. There was some difference of opinion as to whether such surpluses should be credited to a central agency or ploughed back by the enterprise which made it. On the one hand it was suggested that the morale of individual enterprises would be strengthened if they were allowed to retain their surpluses. On the other hand, this might result in a lack of new capital for new enterprises. It was with this in mind that the majority inclined to the view that some surpluses should first of all be collected by a central agency, for example, the Treasury, and then allocated in accordance with the general economic plan of the government to appropriate industries.

119. It was also suggested that the reduction of prices in an early stage of industrial development might promote an increase in demand and so make existing facilities insufficient which would mean either additional investment or controlled distribution.

(3) *If a public enterprise has to cover its costs, which costs should these be?*

120. It was agreed that such costs had to include all running costs and among them depreciation allowances. The point was made that such depreciation should not be calculated on the original (historical) costs but on the actual replacement costs, otherwise the prices charged by the public enterprise would be too low, and an unsatisfactory situation might be created. It is obvious that even the method of charging depreciation or replacement costs could never be fully satisfactory, and that it would have to be applied with discrimination, that is according to different groups of assets, properties, plants, machines, etc. These depreciation funds are the first source of capital replacement; in the Swedish Telephone System, for example, up to 60 per cent of such replacement costs are covered by depreciation. In other words, the government appropriation fund is considerably relieved.

(4) *What is the most suitable way of co-ordinating prices of goods and services charged by different public enterprises?*

121. The problem of co-ordination can arise in two cases: when the price of "nationalized" coal, for example, enters into the costs of railway transport which uses this coal, and when the government wants to decide how the fuel and power industries in one country should work out a pricing system. The relative role of rail and road transports raises a similar problem of co-ordination in nearly all countries.

122. It was pointed out that there were two aspects to the solution of this problem:

(*a*) The creation of a central agency having the necessary authority to impose co-ordination;

(*b*) Devising a standard of co-ordination.

It was stressed that one without the other is not sufficient. For example, in the United Kingdom, the Ministry of Fuel and Power is the co-ordinating agency, but the principle of co-ordination has not yet been fully worked out. Some progress has been made with the introduction of a co-ordinating committee under the chairmanship of the minister. Similarly, the problem has not been solved even under nationalization of the British rail and road transport services. There is a central agency, the British Transport Commission, but it has been unable so far to work out a properly organized "integrated" charging scheme.

123. It was agreed that the problem of co-ordination was one of the most difficult issues in the field of planning the relative scope of public enterprises. It arises of course only in cases where the public enterprise has a dominant role in a particular sector of the industry. For that reason it does not exist in countries like the United States.

(5) *If a public enterprise has to carry out non-commercial activities, e.g., social services and defence, how should the cost be covered?*

124. Broadly speaking, non-commercial activities can be either activities specifically related to the enterprise—*e.g.*, provision of houses for workers—or the provision of uneconomic services to consumers, such as telephone services for farmers in sparsely populated areas of northern Sweden. On the other hand, there are what might be termed general social activities such as the ambulance services provided by British European Airways for the population of the Scottish Islands. It was pointed out that services given for defence purposes are best written off against the vote of the Defence Department and shall not become a charge on the public enterprise itself.

125. It was pointed out that there were two possible types of subsidies for non-commercial activities:

(*a*) Outside subsidies, that is subsidies paid by the government to the corporation, as for example, the subsidies paid by the United Kingdom Government to the two airways corporations; here the aims are partly non-commercial, that is "showing the flag", defence, etc.;

(*b*) Internal subsidies; the best example is the so-called "postalization" of postal rates throughout the world. This is an internal subsidy in so far as consumers in the towns pay more than the costs for the services and are thus in fact subsidizing consumers in the rural areas.

126. In granting subsidies, the following should be kept in mind:

(*a*) The subsidies should be openly given and accounted, for only then is democratic control possible; hidden subsidies should at all costs be avoided;

(*b*) The impact of subsidies on efficiency should be carefully considered; it is known that the grant of subsidies has a demoralizing effect on management and man, especially as the latter might tend to ask for unreasonable wages because they feel that the State is providing a "bottomless purse".

(6) *Should a public enterprise be granted special protection, e.g. a statutory monopoly exemption from taxation, or any other preferential treatment*?

127. The general principle arrived at was that public enterprise in the competitive sector should not be given any exemption, special protection, or preference, because that would put them in an unjustifiable position as against private enterprise. It was however pointed out that in certain circumstances monopoly enterprises would have to be given special protection. Special reference was made to the competition of road and rail services. The government has to decide how far such competition should be allowed to go inasmuch as the railways have to be kept in business often for defence reasons.

(7) *What methods for purchasing should be applied*?

128. Major contracts usually fall into one of two categories

(*a*) Contracts secured after public tender;

(*b*) Contracts secured by free negotiation on specific quotations.

129. The choice between these two categories depends on a number of circumstances, among which the following seem relevant:

(*a*) If the main object of the procedure is to prevent corruption and bribery among public servants, then the former procedure of public tendering will be advantageous. If, on the other hand, the public has to be protected against exploitation by well-organized industries, then public tendering might be a failure, according to the experience of a number of industrial countries.

(*b*) The question whether a contract after public tender or after free negotiation would be appropriate would depend on the nature of the product, the organization of the supplying industries, the volume of orders involved, and the nature of the service necessary for the execution of the contract.

130. There are definite advantages in local purchases, particularly of small stores at prices fixed by general negotiation between the organization and the suppliers.

131. Finally, a distinction was suggested between internal and external procurement. In the case of foreign purchases, there is either the possibility of a permanent agency, for example the Crown Agents in London are used by Ceylon for bulk purchasing.

132. It was noted that with regard to the commercial aspects of enterprise, the question of ownership, whether public or private, was immaterial. Public enterprise faces very much the same problems of organization, of monopoly or competition of management and efficiency as private enterprise; it must employ basically the same techniques of accounting, calculating, buying and selling which enlightened private enterprise follows.

VII. PROBLEMS OF INTERNAL ADMINISTRATION

A. RECRUITMENT AND EMPLOYMENT OF PERSONNEL—CONDITIONS OF EMPLOYMENT

133. The Seminar considered the basic discussion paper (Seminar paper No. 16A).

134. The deficiency of skilled personnel in the ECAFE countries, which are in an early stage of industrial development, cannot be made good by large-scale recruitment from other countries. Even if a few outstanding individuals are available to form the nucleus of the directing staff or can be borrowed for the time being from other countries, there will be a dearth of managers and advisers capable of carrying out policies and of training operative workers.

135. Specialized skills are in very short supply, especially as the educational system of the countries of the region is not yet geared to the needs of an industrial society. Tradition of skill has yet to be developed to meet the requirements of the countries of this region.

136. This state of affairs creates a host of problems. The question was raised whether recruitment of personnel should be made on a lower standard, with the implication of inferior workmanship, and if so whether extra numbers should be recruited to compensate for a lower speed of output, as it was obviously impossible to obtain immediately a high standard of skilled operation. Problems of training would arise. The alternative to adopting such a lower standard which might last perhaps for ten years would be to undertake an expensive programme of overseas scholarships and visiting foreign technicians. Provision must in that case be made to absorb the trained personnel and provide employment opportunities with security.

Recruitment of personnel

137. It may be necessary in the early stages to offer special inducements to stimulate recruitment but this should be avoided as far as possible; otherwise, if these inducements become embedded in the normal conditions of service they will continue to increase operating costs after they have ceased to be useful.

138. A scheme of advancement within the enterprise which gives adequate encouragement to good workers will be an added incentive to recruitment to the basic grade and a means of persuading individuals to remain with the organization. The possibility of introducing outsiders, with long- or short-term contracts, should be explored. As far as senior staff is concerned, to make good immediate shortages, there may be no alternative to the introduction of foreign technicians, supplemented by energetic development of higher educational facilities. In the long run, however, managerial skill must be found within the country.

Methods of training

139. There are basically three systems of instruction. In the training of unskilled workers, a few hours' practice may be sufficient. For skilled workers, either of the following two methods may be tried. The individuals may be trained on the job under skilled guidance or they may be given tuition at a training centre. Individual instruction is based on apprenticeship, and

the training centre method applies the technique of the lecture room to vocational instruction. In the less advanced countries the creation of educational facilities or vocational training may take time. While a considerable effort may be made to develop technical training schools fitting in with the requirements of the countries, the overwhelming demand for skilled labour may make it essential to develop large-scale training projects which aim at a short period of instruction for the individual. When labour is more readily available, selection can be more exacting, and the better the quality of the newcomers, the easier it will be to train them.

Supervisory skills

140. In a rapidly developing industry, the function of the supervisors assumes great importance. This is particularly true during the period when the operating staff is relatively inexperienced. Complex and skilled jobs may have to be broken down to adapt them to the capabilities of the available workers. This increases the need for effective co-ordination between individual employees, which in turn increases the tasks of the supervising staff. Training-within-industry concentrates primarily on three basic phases of supervision: the need to instruct, the need to handle staff effectively, and the need to organize. The role of the International Labour Organisation in training-within-industry in the ECAFE region, both as part of the productivity programme and independently under the technical assistance programme, deserves to be carefully studied.

Training for management

141. Training for management has to be carefully organized. Successful management demands more than innate organizing ability and occupational skills. An intelligent understanding of scientific discovery, a knowledge of economics, finance and accounting and an appreciation of the scale of modern operations are required. This will mean that success at the top level of management depends to a large degree on the selection of the right individuals for intermediate posts, where they will secure the training and experience necessary to undertake the highest responsibilities a few years later.

142. For countries of this region, the solution of this problem may be found in training apprentices for a year or two in a medium-sized enterprise in a developed country. This might be more useful than an academic course in industrial or business administration. The response in most European countries to requests to place university engineering students from abroad, under the auspices of the Educational Association for the Exchange of Students for Technical Experience, has been good; and it is to be hoped that an international arrangement of the kind suggested will meet with an equally friendly response.

143. The question whether it is considered necessary for the chief executive of a public enterprise to have a technical background requires examination. In some countries of the region, senior civil servants have proved themselves capable managers of public enterprises. While a technical background is useful, it is not essential. The pressing need is to find men who have as many of the necessary qualifications as possible. Technical knowledge is one of these qualifications, but a capacity for leadership, sound financial judgment, capacity to undertake planning functions and to deal with delegates and conferences, are equally important. In the short run, however, the technical man with adequate other qualifications might be a better choice since in the early days of a public enterprise, the pressing needs are usually the technical ones. If the enterprises are small and the principal problems arise in the field of production, as in Ceylon for instance a man of technical experience may have a desirable advantage.

144. The inter-change of senior executives between one public corporation and another and between corporations and civil service is beneficial

provided the men concerned possess adequate ability and general experience. The question whether examination is the best method of recruitment and selection of senior executive staff for public enterprises was considered by the Seminar. In countries for which data on experience were available, no arrangement has been made to recruit such staff by written examination. The normal pattern seems to be advertisement, application, selection, interview and appointment.

Conditions of employment

145. In determining the conditions of employment in a particular enterprise, regard may be paid to the conditions offered by other employers, both public and private, who are competing for the type of labour required. Conditions of service must be suitable to secure an adequate field of candidates. In addition, they must be sufficiently attractive to dissuade trained and experienced staff from leaving for other industries; they must give appropriate social status to each class of employees, and they must discourage dishonesty by adequate remuneration.

146. Public enterprises should as far as possible, therefore, pay their employees comparable wages to those paid by government departments, but in the early stages of development, it may be necessary to give slightly better treatment in the public enterprises in order to attract personnel into this new field of employment. It is also considered that employees in public enterprises which operate at a profit should have no advantage in wages or other terms of employment over their colleagues in less favourably situated organizations.

147. The Seminar was of the opinion that top level executives and managerial staff should not be paid low basic salaries supplemented by percentage of profit as an inducement to efficiency.

B. MANAGERIAL POLICY AND RELATIONSHIP

148. The Seminar considered the basic discussion paper (Seminar paper No. 16B). There are four major managerial and administrative problems in any organization in any part of the world. These can be briefly summarized under the following headings:

(*a*) The problem of size;
(*b*) The problem of span of control;
(*c*) The functional sub-division of the organization;
(*d*) The problem of delegation and decentralization.

149. The problem of size has to be viewed from two angles: firstly, as regards the organization as a whole; secondly, with respect to the sub-units which make up the total organization. In both these respects, size can become an important factor, as it can prevent or promote the efficient and swift working of the organization. In both respects, size can have an effect within the organization as well as in its outside relationships.

150. Hitherto, the effective span of control has been deduced mathematically from the number of contacts of an executive with his immediate subordinates. But the conception which has dominated this view in the past has recently been found to be not so sound. The problem does however emerge when a large number of operational units have to be integrated into one compact administrative unit. While a sub-division by functions is a possible remedy, it should be done on a rational basis, without creating blurred areas of diffused responsibility. Decentralization and delegation of responsibility are commonly accepted devices in practically all organizations, and the task of the administrator is to settle the right areas of responsibility and the limits of delegation in such a way that the one is commensurate with the other.

151. The Seminar made a case study of a particular organization, the Highway Departmen tin Turkey. This particular case has great similarity

to the situation prevailing in the countries of South-East Asia. In Turkey, two requirements had to be fulfilled by the organization:

(*a*) To provide services on a far greater scale than currently available;

(*b*) To fulfil this programme in the shortest possible time.

152. The whole road network existing and projected was divided into three categories: national, provincial and local roads.

153. So as not to overburden the department, it was given *direct* executive responsibility only for national roads, but only *co-ordinating* functions over provincial and local roads. Executive responsibility for the construction and upkeep of the latter was vested in regional and local authorities.

154. So far as national roads were concerned, the executive job of the Highway Department was broken up into four major functions :

(*a*) Planning;

(*b*) Design;

(*c*) Construction;

(*d*) Maintenance.

155. At the outset it was obvious that headquarters could not itself perform the actual work of construction and maintenance all over the country. For that reason, these two functions were handed over to eleven field divisions, each with definite responsibility for particular areas. Headquarters retained only the major functions of planning and design.

156. A similar division of operational work into regions has taken place in the Turkish Railways, the only difference being that the regions are nine in number.

157. These two examples show that regional organization is an inherent problem of any large-scale undertaking, although the actual boundaries will have to take into account geographical and other technical factors.

158. Apart from the four main functions in which the Highway Department was organized, it became obvious that auxiliary technical departments had to be set up. These were grouped as follows:

The Research Department, with technical laboratories to design and test new roads and materials;

The Supplies Department for buying equipment, etc.;

The Traffic Operation Department for sign-posting newly built roads, etc.

159. As with any other organization, the Highway Department had to organize normal service departments, or as they are often called "common service departments" *i.e.*, departments serving the organization as a whole. The following were set up:

Finance and Account Department;

Legal Department;

Personnel Management Department;

Central Registry.

160. The final problem which had to be solved was the proper delegation of authority by headquarters and the eleven field divisions. Two main principles were laid down:

(*a*) The field engineer in charge of each field division was given wide executive powers within the general road-building programme and the accompanying monetary budget. In other words, once the programme of work was approved he was free to take any executive action necessary to implement it.

(*b*) On the other hand, the organization was designed to prevent the executive chief engineer from being overwhelmed with

technical details while at the same time there was an obvious necessity to preserve technical uniform standards. For that reason, specialist engineers at headquarters were given *functional* control over specialist engineers in the field divisions, but without the right of giving policy directions, these being exclusively left in the hands of the chief field engineer. The main principle of the organization was to leave the final decision—of course within the programme—in the hands of the local man who alone has the "feel" of local needs.

161. Although a formal structure had thus been designed which would bring about a uniform pattern of the organization, the subsequent history of the working of the organization showed great discrepancies entirely due to the different personalities of the field engineers. The following were quoted:

(*a*) There were some engineers who never made use of the decentralized powers but referred every matter to the higher authority;

(*b*) There were, on the other hand, strong personalities who rarely restricted themselves to their formal authority, but were usually successful in persuading their superiors to ratify their action.

162. In other words, the practical experience of the Highway Department was that organization and formal structure are very important, but are not the final answer to administrative problems.

163. In Ceylon, with a lack of industrial tradition, the size of the enterprises set up in the initial stages was determined by social considerations of cheaper labour employment rather than by economic considerations. This labour force was sometimes used as a training ground for recruitment to other similar enterprises.

164. Attention was drawn to the fact that the problem of "size" could not be viewed in the abstract but had to be seen against the technical, economic and financial backgrounds of the organization. It was not suggested that the size of an organization should deliberately be restricted when economic and technical considerations demanded a larger organization. Moreover, the problem of size could be handled in such a way that the organization could be internally broken up. Reference was made in this connexion to the recent experiment in the Indian Railways where six regions with wide autonomous powers had been organized.

165. It was asked whether the experience of countries outside the region showed that individual management was preferable to management by boards or committees. It was pointed out that organization should provide the answer to three questions:

(*a*) Who should decide *what* is going to be done?

(*b*) Who should advise *how* things are going to be done?

(*c*) Who should be the person to *get things done*?

This referred not to the problem of policy-making but to executive management, after policy had been formulated.

166. In the United States, the system of individual management from top to bottom with a straight line of authority is considered to be preferable. It was suggested that the distinction between policy-making and executive management, as made in the nationalized industries in the United Kingdom was normal. Policy formulation is in the hands of boards whereas executive management is left to individuals, for example, the area general managers of the Coal Boards and the district managers of the Gas and Electricity Boards.

167. Another issue raised was the problem of communication. As long as one man is in charge, no specific machinery of co-ordination is necessary, but when this structure is broken up and power is vested in a board or committee, then such machinery is necessary. The correct

approach is to provide the same smooth working co-ordination within a board as would be the case if one man were responsible.

VIII. PUBLIC UNDERSTANDING

168. The Seminar considered the basic discussion paper (Seminar paper No. 17).

169. Frequently the main source of information on the work of a public enterprise is the annual report submitted either to the responsible minister or to the legislature. It was agreed that the informatory value of these reports was sometimes too scanty to serve a useful purpose to the public. Public interest usually takes the following forms: the demands of consumers concentrating on quality and price; the influence of the press concentrating on the burden on the taxpayer if losses are incurred; and a feeling among the public at large that it is entitled to know precisely how and for what purposes public money is spent.

170. Apart from rendering the conventional annual report, public enterprises have found it advantageous to expand the publicity on their operations in a number of ways. The practice in Burma is fairly similar to the practices of other countries. Widespread publicity and propaganda, including film displays, press reviews, exhibitions, photographs and radio broadcast are some of the principal methods employed to narrow the gulf between the public and the enterprise.

171. An explanation was given of the various forms of consumers' councils which were provided for in the United Kingdom in the Acts of Parliament creating the nationalized industries.

172. The Seminar accepted the pre-eminent position of the consumer in his right to be heard in comments on service and management. It has therefore recognized that suitable channels should be provided for the consumer to voice his comments. It was however pointed out that direct participation of consumer representatives in management had not been found satisfactory.

IX. GENERAL

173. The representatives of the various countries participating in the Seminar were unanimously of the opinion that the Seminar had proved extremely useful and beneficial to the countries of the region, and that it had facilitated the exchange of experiences and views on the important subject of organization and administration of public industrial enterprises. It was recommended that similar seminars or working parties at expert level on selected aspects of the organization and administration of public industrial enterprises be convened by the United Nations from time to time.

174. The Seminar expressed the view that specific studies in the commercial aspects of public enterprises, especially with regard to the formulation of an accounting system making provision for economic as well as social costs, would be of particular interest to the countries of the region.

175. It recommended that the ECAFE Secretariat should act as a clearing house for dissemination of information on the subject. In this connexion, the offer of the United Nations TAA consultants to continue to render advisory service to the countries of the ECAFE region was noted with great appreciation.

176. The Seminar also considered that the United Nations Technical Assistance Administration should, wherever possible, assist the countries of the region in setting up national institutes of management and national training centres for managerial personnel.

177. The Seminar emphasized the desirability of extending the training facilities already available in some countries of the region to nationals of the other countries of the region.

APPENDIX 1

LIST OF PARTICIPANTS

MEMBERS OF ECAFE

	BURMA
Sithu U Aung Soe	Financial Commissioner
Sithu U Shwe Mra	Secretary, Ministry of Transport and Communications
Thray Sithu U Hla Maung	Executive Secretary, Economic and Social Board
U Tin Pe	Secretary, Ministry of National Planning and Religious Affairs
U Chit Pe	Secretary, Ministry of Agriculture and Forests
Wunna Kyaw Htin U Ba Tun	Secretary, Ministry of Mines
Wunna Kyaw Htin U Tun Thoung	Secretary, Ministry of Industries
Thiri Pyanchi U Ba San	Secretary, Ministry of Commerce
Thiri Pyanchi U Thant	Secretary to the Prime Minister
U E Thant	Secretary, Ministry of Information
U Kyaw Nyun	Secretary, Ministry of Finance and Revenue
Sithu U Thet Su	Chairman, State Agricultural Marketing Board
U Thein Nyun	Secretary, Ministry of Union Culture
U Soe Tin	First Secretary, Foreign Office
U Saw Tun	Deputy Director of Industries
U Tin Nyun	Trade Union Congress (Burma)
U Thet Tun	Assistant Director, Central Statistical and Economics Department
U Ba Kyu	Secretary, Ministry of Housing and Labour
U Win Pe	Chairman, Board of Management for the Port of Rangoon
	CHINA
Mr. Lee Tsuan-Sun	Vice President, Taiwan Fertilizer Company Ltd., Taipei, Taiwan
Mr. Ho Hsiang	General Manager, Taiwan Industrial and Mining Corporation, Taipei, Taiwan
	FRANCE
Mr. F. Geoffroy-Dechaume	Permanent Representative of France to ECAFE, Bangkok, Thailand
	INDIA
H.E. Mr. K.K. Chettur	Ambassador to the Union of Burma, Rangoon, Burma

MEMBERS OF ECAFE (*Contd.*)

Mr. Saroj Kanta Guha	Ministry of Production, New Delhi
Mr. H. N. Vibahakar	First Secretary, Indian Embassy, Rangoon, Burma
	PAKISTAN
Mr. Abdul Ghayur	First Secretary, Pakistan Embassy, Rangoon, Burma
	PHILIPPINES
Mr. Jose E. Velmonte	Dean, College of Business Administration, University of the Philippines, Manila
Mr. Chester Ferrel Heady	Jr. Director, Institute of Public Administration, University of the Philippines, Manila
	UNITED KINGDOM
Mr. R. Kelf-Cohen, C.B.	Under Secretary, Ministry of Fuel and Power, London
Mr. B.C.A. Cook , O.B.E.	Commercial Counsellor, British Embassy, Rangoon, Burma
Mr. P.A. Rhodes	Second Secretary, British Embassy, Rangoon, Burma

ASSOCIATE MEMBERS OF ECAFE

	CAMBODIA
M. Chamroeun-Bunroeun	Secretary-General, American Aid to Cambodia, Presidence du Conseil des Ministres, Phnom-Penh
	CEYLON
Mr. Peter Oliver Fernando	Permanent Secretary, Ministry of Industries, Housing and Social Services, Colombo
Mr. Egerton Christison Selvarayon Paul	Deputy Director of Industries, Colombo
	JAPAN
Prof. Tatsuo Takenaka	(414, Nishigawara, Ibaraki City, Osaka Prefecture), Professor of Business Administration, Kobe University

OBSERVERS

	BURMA
Thiri Pyanchi U Ba Sein	Chairman, Electricity Supply Board
Sithu U Zin	Director-General, Industrial Development Corporation
Sithu U Hman	Chairman, State Timber Board
U Ba Shan	Chairman, Inland Water Transport Board
Sithu U Tun Thwin	Chairman, Burma Railways
U Maung Maung	Deputy Secretary, Ministry of Housing and Labour
U Chit	Chairman, Union of Burma Airways
U Ba Bwa	General Manager, Inland Water Transport Board
U Kyi Win	General Manager, Burma Railways
U Nyi Nyi	Registrar, Co-operative Societies
U Kyaw Sein	General Manager, Government Spinning and Weaving Factory
U Taw	General Manager, Union of Burma Airways

OBSERVERS (*Contd.*)

U Tin U	Director-General, Agricultural and Rural Development Corporation
U Pu	Mining Adviser
U Tun Thin	Professor of Economics, University of Rangoon
U Kyaw Nyein	Chairman, State Agricultural Bank
U Sein	Deputy Director of Labour
U Khin Pe	Secretary, Government Tile Factory Board
Dr. U Ba Thi	Senior Geologist, Burma Geological Department
U Tun Aung	Deputy Manager, Employment Exchange
U Tha Tun Oo	Deputy Director, Central Statistical and Economics Department
U Tun Aung Pru	Assistant Engineer, National Housing Board
U Mya Than	Executive Engineer, National Housing Board
Mr. D. K. Ghosh	Assistant Secretary, Ministry of National Planning and Religious Affairs
U Ko Ko Gyi	Trade Union Congress (Burma)
U Sein Win	Trade Union Congress (Burma)
U Maung Maung Than	Deputy Secretary, Ministry of Information
U Nyun Wei	Economist, Central Statistical and Economics Department.

ISRAEL

Mr. Moshe Leshem	Second Secretary, Legation of Israel, 97, 36th Street, Rangoon, Burma

UNION OF SOVIET SOCIALIST REPUBLICS

Mr. A. Panteleimonov	Commercial Counsellor, USSR Embassy, Rangoon, Burma

UNITED NATIONS TECHNICAL ASSISTANCE ADMINISTRATION (TAA)

Dr. Walter H.C. Laves	(Vice-President, Governmental Affairs Institute, Washington, D.C.) Secretary-General of the Seminar
Mr. F.J. Tickner	Public Administration Division
Mr. G.W. Cadbury	

TAA CONSULTANTS

Mr. T. E. Chester	Acton Society Trust, 39 Welbeck Street, London
Mr. Louis Closon	*Institut national de la statistique et des etudes economiques*, 29 Quai Branly, Paris VIII
Mr. T. Benson Gyles	General Superintendent, Sindri Fertilizer Project, Sindri, India
Prof. W. Friedmann	School of Law, University of Toronto, Toronto, Ont., Canada
Prof. T. H. Kewley	University of Sydney, Sydney, Australia
Mr. Orhan Mersinli	Assistant General Director of Highways, Karayollari Genel Mudurlugu, Ankara
Mr. Bertil Olters	Regional Director, Royal Swedish Telecommunications Board, Goteborg, Sweden
Mr. Harold Seidman	Government Corporation Specialist, Bureau of the Budget, Executive Office Building, Washington 25, D.C.

ECAFE SECRETARIAT

Dr. P.S. Lokanathan	Executive Secretary
U Nyun	Chief, Industry and Trade Development Division, Joint Secretary-General of the Seminar
Mr. A. Alagappan	Economic Affairs Officer
Mr. W. Tanzer	Information Officer

APPENDIX 2

AGENDA

		Seminar paper No.
1.	Address by the Executive Secretary, United Nations Economic Commission for Asia and the Far East	
2.	Statement by the Secretary-General of the Seminar on behalf of the International Institute of Administrative Sciences	
3.	Address of welcome by the Minister for National Planning and Religious Affairs, Government of the Union of Burma	
4.	Election of the Chairman and Vice-Chairman	
5.	Statement by the Secretary-General of the Seminar	
6.	Adoption of the agenda	1
7.	Trends in the development of public enterprises in the ECAFE region	21, 32, 33, 35
8.	Types of organization suitable for public industrial Undertakings	12, 22, 37
9.	Organizational relationships within the governmental structure	13
10.	Financing of public enterprises	14, 24
11.	Problems of internal administration	16A, 16B, 31, 34
12.	Commercial aspects of public enterprises	15, 25
13.	Public understanding	17
14.	Adoption of the report	

APPENDIX 3

ANNOTATED AGENDA

I. TRENDS IN THE DEVELOPMENT OF PUBLIC ENTERPRISES IN THE INDUSTRIAL FIELD

What has hitherto been the experience of the countries of the region in the development of public enterprises? Has it been necessary to stimulate or to regulate industrial enterprises by governmental means? What circumstances and conditions have led governments to undertake the development of their own enterprises for economic development up to the present time? Does this development conform to any kind of pattern in particular countries or in the area as a whole? Does experience suggest any specific scope for public enterprise to meet the need of future industrial development? Are the newer public enterprises different in character from the old?

Are such changes in character determined more by general economic developments throughout the region or by the circumstances of each country? How far is the previous experience, for example, in public utilities, including transportation and communications, of direct value in the development of new enterprises? What special assumptions concerning profit and services underlie the operation of public industrial enterprises? What public industrial enterprises are today in operation and what others are planned in each country?

II. TYPES OF ORGANIZATION

A. When the State acts as an entrepreneur, should it use types of organization different from those of ordinary government administration?

B. What types of organization should be employed for the administration of public enterprises and what are their distinguishing characteristics (for example, bureaucratic organization, public corporations, joint stock companies, mixed ownership enterprises, operations by management contract, etc.)?

C. What are the advantages and disadvantages of each type of institution?

III. ORGANIZATIONAL RELATIONSHIPS AND CONTROLS

A. How and to what extent can operational flexibility required for managerial efficiency be reconciled with the need for public accountability and consistency in public policy?

B. At what points is it essential that controls over public enterprises be established?

C. What is the extent and nature of controls over public enterprises?
(1) Method of creation
(2) Organizational relationship with machinery of government
(3) Financial controls
(4) Ministerial control
(5) Relationship with parliamentary institutions.

D. What should be the composition and function of the governing board? Should board members be representatives, trustees, or experts? Should the board be policy-making or executive? Should there be a single executive or a board?

IV. FINANCING AND FINANCIAL CONTROL OF PUBLIC ENTERPRISES

A. What are the principal sources of capital for new investment in public and private enterprises? Do any particular sources of capital exist which are not now being utilized to maximum advantage? In what circumstances is deficit financing by the government or by public enterprise justified?

B. What influence, if any, have the reputation and financial standing of the government and those of the public enterprises on one another? What is the relationship between the financial and economic policy of the government and that of the public enterprises?

C. What are the advantages and disadvantages of the following principal methods of financing public enterprises: appropriation in the budget, earmarked taxes, sale of capital stock, sale of bonds either guaranteed by the government or not, loans from government or other sources, etc.

D. What different financial controls are required for public enterprises from those normally employed in private enterprise? Do these include any special central controls over borrowing, use of surplus

funds, new investment, depreciation, prices, purchasing, accounting methods and audit?

E. Is it possible to develop central financial controls which will not destroy financial and managerial efficiency and flexibility?

V. COMMERCIAL AND ECONOMIC ASPECTS OF PUBLIC ENTERPRISES

A. Should a public enterprise be directed to make a contribution to public revenue? Should it make a profit or just cover its costs? if the latter, which costs?

B. In cases where it has to cover its costs only, should its price policy be based on average costs or marginal costs?

C. If a public enterprise has to carry out non-commercial activities, *e.g.*, social services and defence, how should the costs be covered?

D. Should a public enterprise be granted special protection, *e.g.*, a statutory monopoly, exemption from taxation, etc.?

E. What methods for purchasing should be applied?

VI. INTERNAL ADMINISTRATION

Recruitment and training of personnel

A. What are the principal problems in recruitment and selection of operating personnel in public corporations and other employment?

B. What should be the objectives and methods in the selection and training of supervision and management?

C. How should training be organized in public corporations?

D. What is the relationship between vocational training in public corporations and the general education system of the country?

E. What are the principal problems in wage-fixing and relativities of pay rules between public corporations and other employment?

F. How far should temporary key personnel, including non-nationals, be used, and how useful is training overseas for selected individuals?

Managerial policy and relationship

A. What are the principal internal organizational problems of public enterprises in the ECAFE region?

B. How far are the suggestions contained in the basic paper useful for meeting these problems?

PUBLIC UNDERSTANDING

(agenda item 13)

A. How important is public understanding to the successful operation of public enterprises?

B. What means should the government or the public enterprise use to build up public understanding?

C. How should the consumers' interest be organized?

APPENDIX 4

GUIDE TO DOCUMENTATION

Grateful acknowledgement is made to the governments, individuals and organizations which have generously assisted in the collection of data and the preparation of discussion papers and information memoranda. The very substantial number of high quality papers thus made available to the Seminar is evidence of the growing interest throughout the world in the problems set forth in the agenda. It is even more a clear indication of the great importance of the Seminar itself in providing a co-operative effort to discuss a series of organizational and administrative problems that are central to the successful prosecution of national development programmes.

Private individuals and professional non-governmental organizations as well as governments and United Nations agencies have contributed to the preparation of this documentation. Responsibility for accuracy of facts and for their interpretation rests necessarily with the authors.

In relation to nearly each substantive agenda item there are four distinct categories of documents:

A. A paper serving as the basis of discussion of the agenda item (Seminar papers Nos. 12-17 inclusive).

B. An ECAFE Secretariat paper summarizing available information on the experiences and practices of countries of the ECAFE region on the individual agenda item (Seminar papers Nos. 21, 22, 24, 25).

C. Papers received from states members of ECAFE in response to a request for data on experience bearing upon each agenda item (Seminar papers Nos. 31-50).

D. Information memoranda and other material bearing upon the experience and practices of countries outside the ECAFE region and relating to the agenda items (Seminar papers Nos. 51-110).

In addition to the documents listed in each category under each substantive agenda item, there are a number of memoranda and printed publications relating to experiences and practices of countries outside the ECAFE region but which deal with several items of the agenda. They will be found in the additional list following item VII below.*

(*Note :* The papers relating to the administration of the Seminar are numbered 1 to 10).

I. TRENDS IN THE DEVELOPMENT OF PUBLIC ENTERPRISES IN THE ECAFE REGION

A. No basic discussion paper. Document listed under B to serve for this purpose.

B. ECAFE Secretariat summary : Seminar paper No. 21.

C. Papers received from ECAFE members: Seminar papers No. 32, 33 and 35.

II. TYPES OF ORGANIZATION SUITABLE FOR PUBLIC INDUSTRIAL UNDERTAKINGS

A. Basic discussion paper : Seminar paper No. 12.

B. ECAFE Secretariat summary : Seminar paper No. 22.

C. Paper received from ECAFE members: Seminar paper No. 37.

D. Information memoranda and other material from outside the region : Seminar papers Nos. 99, 51, 105, 111, 53, 113 and 114.

See also additional list below.

* In this guide to documentation, papers will be referred to by numbers only. For titles see appendix 5, check list of documents.

NOTES

III. ORGANIZATIONAL RELATIONSHIPS WITHIN THE GOVERNMENTAL STRUCTURE

A. Basic discussion paper : Seminar paper No. 13.

B. No ECAFE Secretariat summary.

C. No paper from ECAFE members.

D. Information memoranda and other material from outside the region :

Acton Society Trust	Accountability to Parliament (publication No. 1, 1950)
,,	The men on the boards (publication No. 4, 1951)
,,	The powers of the Minister (publication No. 2, 1952)

Seminar papers Nos. 81, 111, 84 and 104.

See also additional list below.

IV. FINANCING OF PUBLIC ENTERPRISES

A. Basic discussion paper : Seminar paper No. 14.

B. ECAFE Secretariat summary : Seminar paper No. 24.

C. No paper from ECAFE members.

D. Information memoranda and other material from outside the region :

United Nations	Budgetary structure and classification of government accounts, 1951 (ST/ECA/8)
,,	Domestic financing of economic development, 1950 (ST/ECA/17—UN publication sales No. 1951 B. 1)
,,	Government accounting—budget executive, 1952 (ST/ECA/16)

Seminar papers Nos. 54, 55 and 92.

See also additional list below.

V. COMMERCIAL ASPECTS OF PUBLIC ENTERPRISES

A. Basic discussion paper : Seminar paper No. 15.

B. ECAFE Secretariat summary : Seminar paper No. 25.

C. No paper from ECAFE members.

D. Information memoranda and other material from outside the region :

Seminar papers Nos. 54, 56, 102 and 99.

See also additional list below.

VI. PROBLEMS OF INTERNAL ADMINISTRATION

A. Basic discussion papers : Seminar papers Nos. 16A and 16B.

B. No ECAFE Secretariat summary.

C. Papers received from ECAFE members : Seminar papers Nos. 31 and 34.

D. Information memoranda and other material from outside the region :

Acton Society Trust	The extent of centralization (parts 1 & 2) (publications Nos. 6 and 7)
,,	The future of the unions (publication No. 8)

Acton Society Trust	The framework of joint consultation (publication No. 10)
,,	The worker's point of view (publication No. 11)
,,	Management under nationalization
,,	The miner's pension
,,	Training and promotion in nationalized industry
,,	Problems of promotion policy.

Seminar papers Nos. 57, 58, 112, 59, 103, 78, 93 and 97.

See also additional list below.

VII. PUBLIC UNDERSTANDING

A. Basic discussion paper : Seminar paper No. 17.

B. No ECAFE Secretariat summary.

C. No paper from ECAFE members.

D. Information memoranda and other material from outside the region :

Acton Society Trust	Relations with the public (publication No. 12)

See also additional list below.

ADDITIONAL LIST OF MATERIAL FROM OUTSIDE THE ECAFE REGION

The following material deals with experiences and practices of countries largely outside the ECAFE region. Because this material relates to more than one agenda item it is separately listed by countries.

		Seminar paper No.
EUROPE		
	Austria	60
	Denmark	61
	France	37
	Germany	85
	Greece	63, 64, 86, 94 and 89
	Italy	95
	Norway	65 and 66
	Portugal	83
	Spain	82
	Sewden	52, 71 and 70
	Switzerland	90
	United Kingdom	Acton Society Trust : Series of booklets on *Nationalized Industry* 114
	Yugoslavia	72
AUSTRALIA		73, 91 and 74
AMERICA		
	Canada	75, 67, 68 and 69
	United States	77
	Latin America (general)	115
	Argentina	62
	Chile	87 and 106
	Puerto Rico	96
	El Salvador	88
MIDDLE EAST		
	Turkey	79
	Israel	108, 109 and 110

NOTES

AFRICA

South Africa 80

GENERAL 76

UNITED NATIONS DOCUMENTS

Technical Assistance Board (TAB)	Report to TAB by the Working Group on the Central American Economic Integration Programme (TAB/INF/R. 168, 23 November 1953, Restricted)
	Economic integration for the Central American countries (TAB/ONF/R. 151, 27 February 1953, Restricted). (Many cross-references to comparable problems of special importance in terms of regional approaches that affect policy of national public enterprises)

DOCUMENTS OF THE INTERNATIONAL INSTITUTE OF ADMINISTRATIVE SCIENCES (IIAS)

Studies on economic administration in

1. Belgium
2. France
3. Italy
4. The Netherlands
5. The United States of America
6. Yugoslavia

APPENDIX 5

CHECK LIST OF DOCUMENTS

Seminar paper No.

1. Provisional agenda
2. Annotated agenda
3. List of participants
4. Guide to documentation
5. Check list of documents
6. Who's who in the Seminar

A. *Basic discussion papers*

(the second figure in the number refers to the substantive agenda item)

12. Types of organization suitable for industrial enterprises
13. Organizational relationships and control
14. Financing of public enterprises
15. Commercial and economic aspects of public enterprises
16A. Problems of internal administration—Recruitment and training of personnel : conditions of employment
16B. Problems of internal administration—Managerial policy and relationships
17. Public understanding

B. *ECAFE Secretariat summaries*

(the second figure in the number refers to the substantive agenda item)

21. Trends in the development of public enterprises in the ECAFE region
22. Main types of organizations of public industrial undertakings in the ECAFE region
24. Some aspects of financing of public enterprises in the ECAFE countries

C. *Papers prepared by States members of ECAFE*
(chronological order)

31. Personnel policy in Australian public enterprises in the industrial field
32. Public enterprises of Ceylon
33. Public enterprises of China
34. Problems of training of personnel (prepared by the Government of Pakistan)
35. Organization and administration of public enterprises in the Union of Burma
36. Structure and operation of industrial organizations in the public sector (prepared by the Government of France)
37. Types of organization suitable for public industrial undertakings (prepared by the Ministry of Production of India)
38. Extent of public enterprises in New Zealand

D. *Information memoranda on experiences outside the ECAFE region*
(chronological order)

51. The use of government-sponsored co-operatives in under-developed areas, by B.W. Gussman
52. The organization of public enterprises in Sweden, by IIAS
53. The government corporation : its place in the federal structure, by Harold Seidman
54. The financing of public enterprises and monopoly and competitive aspects of public enterprises in the State of New South Wales, Australia, by W.J. Campbell
55. Financing of public enterprises in the Australian Commonwealth Government, by T.H. Kewley
56. Commercial aspects of public enterprises in the Australian Commonwealth Government, by T.H. Kewley
57. Some problems of recruitment, training and personnel management in public enterprises of New South Wales, Australia, by A.J. Davies.
58. Management in the public services, by F.G. Hooper
59. Recruitment and conditions of employment of personnel of public corporations in the Australian Commonwealth Government, by T.H. Kewley
60. Problems of the nationalization of the Austrian iron and steel industries, by A. Blumauer-Montenave
61. The Danish Steel-Rolling Mill and the Cryolite Company "Resund", by IIAS
62. Public enterprises in Argentina, by J.C. Rodriguez Arias
63. The organization of the Public Power Corporation, by Prof. N.A. Deloukas
64. The organization of the Hellenic Telecommunications Company, by Prof. N.A. Deloukas
65. The Norwegian State Grain Corporation, by IIAS
66. Organization and administration of public enterprises in the industrial field in Norway, by G.C.D. Germeten

NOTES

67. Financing the Canadian Crown corporations: general financial provisions, by F.A. Milligan
68. Financing the Canadian Crown Corporations: capital financing, by F.A. Milligan
69. The capital structure of the Canadian National Railways, by F.A. Milligan
70. Swedish administration of Crown Lands and Forests, by IIAS
71. Swedish State Power Administration, by B.G. Rathsman
72. Organization and management of an industrial enterprise in the Federated People's Republic of Yugoslavia, by IIAS
73. Australian Commonwealth Government corporations: a statutory analysis, by T.H. Kewley and Joan Rydon
74. Public enterprises in the State of Victoria, Australia, by A.T. Williams
75. Planning and control of public enterprises in the Province of Saskatchewan, Canada, by G.W. Cadbury
76. The theory of public industrial enterprises, by W. Friedmann
77. Controls, accountability and administration in the Port of New York Authority, by Matthias F. Lukens
78. TVA's working philosophy of industrial relations, by Gordon R. Clapp
79. The system of State Banks and their role in the development of public industrial enterprises in Turkey, by Muhiddin Dizdarer
80. Public enterprise in the industrial field in South Africa, by the National Development Foundation of South Africa
81. Legal safeguards in the operation of public enterprises in Belgium, by IIAS
82. The organization and administration of public enterprises in Spain, by Manuel Alonso Olea
83. The Portuguese State and industrial development, by IIAS
84. Relation of foreign aid programmes to the organization and development of public enterprises, by W.S. Sharp
85. Economic activity of government in Germany, by IIAS
86. Trends in the development of public enterprises in Greece, by Dr. George D. Dashalakis
87. The Chilean Development Corporation, by Edwin A. Bock
88. Financing of the Electric Power Plant at Chorrera Del Guayabo, El Salvador, by W.J. Feuerlein
89. General considerations on public corporations in Greece, by D.C. Psaros
90. The Swiss State as entrepreneur, by IIAS
91. The statutory corporation in the cultural field: Australian experience in the formation and operation of the Australian Broadcasting Commission, by R.J.F. Boyer
92. Financing of decentralized institutions and enterprises in Mexico, by Francisco de la Pena and Emilio Alanis Patino
93. Organization of the Tennessee Valley Authority, by TVA
94. The organization of public enterprises in the industrial field in Greece, by Prof. G.D. Dashalakis, IIAS
95. The organization of public enterprises according to Italian law, by IIAS
96. Some observations concerning the administration of public enterprises in the industrial field in Puerto Rico, by Martin C. Clapp
97. Personnel policy and practices in Canadian Crown corporations, by H.R. Balls
98. Working Group on the Central American Economic Integration Programme, United Nations Technical Assistance Board (TAB)
99. The accountability of a nationalized industry, by Sir Geoffrey Vickers, in *Public Administration*, Spring 1952
100. Electricity Act, 1947
British Electricity Authority and Area Electricity Boards
101. British European Airways, Report and Accounts for 1952-53

102. The measurement of productivity in State undertakings and public services, by Gabriel Ardant
103. Teamwork approach to productivity, by Thelma Iles Dodd
104. The governing boards of public enterprises, by Prof. W.A. Robson
105. Development of the co-operative movement in America, by the Pan American Union (limited copies)
106. The Chilean Development Corporation, by Herman Finer
107. Economic integration for the Central American countries TAB (limited copies)
108. Regional irrigation development in Israel
109. Power supply in Israel
110. The Citrus Control and Marketing Board in Israel
111. The government corporation : elements of a model charter, by Sidney D. Goldberg and Harold Seidman (limited copies)
112. The establishment of an Institute of Public Administration (Committee on Administrative Practices), Istanbul, by IIAS (limited copies)
113. Patterns of organization, by Acton Society Trust, London
114. The North of Scotland Hydro-Electric Board, by H.A. Clegg and T.E. Chester, in *Public Administration*, Autumn 1953 (limited copies)
115. Latin American economic development institutions, by the Pan American Union (limited copies).

SOME PROBLEMS IN THE ORGANIZATION AND ADMINISTRATION OF PUBLIC ENTERPRISES IN THE INDUSTRIAL FIELD

Documents Selected from the Material
Prepared for a United Nations Seminar
Held in Rangoon from March 15th to March 26th, 1954,

Under the Auspices of

The Economic Commission for Asia and the Far East
The United Nations Technical Assistance Administration
The International Institute of Administrative Sciences

The Seminar dealt with
the Organization and Administration of Public Enterprises
in the Industrial Field

UNITED NATIONS

Technical Assistance Administration

New York, 1954

ST/TAA/M/7
28 July 1954

UNITED NATIONS PUBLICATION
SALES NO. 1954.II.H.1

Price: $0.50 (U.S.A.); 3/9 stg.; 2.00 Sw. fr.
(or equivalent in other currencies)

CONTENTS

	Page
Introduction	1- 4
I. Types of organization suitable for public enterprises	5-16
II. Organizational relationships and controls	17-31
III. Problems of personnel management	32-45
IV. Managerial policy and internal relationships	46-54
V. Public understanding	55-64
Bibliography:	
Section I. Monographs and United Nations documents	65-72
Section II. Journal articles	73-87

INTRODUCTION

1. The contents of this volume were originally written as basic discussion papers for the Seminar on the Organization and Administration of Public Enterprises in the Industrial Field, held in Rangoon in March 1954, under the auspices of the United Nations Economic Commission for Asia and the Far East, the United Nations Technical Assistance Administration and the International Institute of Administrative Sciences.

2. In the area served by the Commission, governments are at present engaged in intensive efforts to foster economic development in an attempt to overcome poverty, malnutrition, disease and illiteracy. This has led, in greater or lesser degree in the various countries, to the intervention of government in various spheres of economic enterprise. Insofar as this intervention entails direct governmental ownership and operation, experience shows that all of these governments have been faced with organizational and administrative problems of similar character. A survey of these problems in the public operation of industrial enterprises was accordingly undertaken by the ECAFE secretariat. Through the initiative of the Committee on Industry and Trade of ECAFE the matter received wider attention and the Seminar was arranged as a means of stimulating interest and discussion of common problems, between participants from member countries and consultants from outside the ECAFE region. The Government of the Union of Burma was host to the Seminar and the IIAS undertook responsibility for preparing much of the necessary documentation.

3. The agenda was grouped under seven principal headings: Trends in the development of public enterprises in the ECAFE region; types of organization suitable for public enterprises; organizational relationships and control; financing of public enterprises; commercial and economic aspects of public enterprises; problems of internal administration; and public understanding.

4. Basic discussion papers were prepared, covering the whole range of these subjects. Those which stimulated the greatest interest have been selected, revised and amplified to include additional material, brought to light at the Seminar itself, and are contained in this volume. The bibliography prepared for the Seminar has also been included and enlarged. In addition material on organizational and administrative aspects of public enterprise in various parts of the world was collected in a series of information memoranda, and it is hoped that it will shortly prove possible for the International Institute of Administrative Science to publish a selection from these documents.

5. Grateful acknowledgement is made to many individuals and organizations who helped with the preparation of this extensive documentation.

6. It has not been possible, nor indeed is it necessary, to complement the papers contained in this volume with a full historical account of the development of public enterprise or a summary of the discussion at Rangoon. Nevertheless some general observations seem called for, on past development and current issues.

7. No one country is typical of the region as a whole; few are alike even in major respects. Japan and Thailand have both maintained political independence over a long period, yet the industrial development of Japan has been by far the more advanced of the two. India, Pakistan and Burma, were at one time part of the same political structure, yet Burma is now pursuing a course entirely different from the other two. India and Indonesia passed through a period of colonial development, but they differ from one another in many ways. Each was associated primarily with a single European nation, whereas Ceylon and the Philippines have experienced changes in outside influence, the latter within quite recent times. China has passed through phases of development peculiar to itself.

8. Thus the economic development of the various countries may show broad similarities, but in each instance their domestic characteristics dominate the particular situation. At the Seminar it proved almost impossible to offer generalized solutions applicable to all countries.

9. Public enterprise is no new feature of the region. The so-called "culture system", the large scale agricultural economy in force in the Dutch colonies in Indonesia during the earlier part of the nineteenth century, is a form of public enterprise which now belongs to the past; state salt monopolies which still persist as a means of raising revenue in several countries, date from even earlier times. Public irrigation works go back to an early historical period, although modern needs of electrical generation and the resources of modern engineering have given a new stimulus to regional irrigation projects. Forest conservation, agricultural research, sanitation, communications and transport were generally within the sphere of public enterprise before the end of the nineteenth century; mining was in some cases a government undertaking even before private investment entered the field.

10. A characteristic of public undertakings in the ECAFE region has been the absence, for the most part, of conscious political motivation except in so far as an attempt to raise the general standard of living is to be regarded as a political motive. It is true that the present Burmese government has a political philosophy which creates a climate favourable to state enterprises, but the lack of available private capital and of industrial experience are at least as compelling motives for the creation of public corporations there. In Japan it was for many years the policy of the government to stimulate a vigorous industrial development; but for this purpose state action or private enterprise was called into play according to the needs of the moment. In the Philippines, through the National Development Company, the government gave a lead in the development of industrial enterprise, but it encouraged the investment of private capital, domestic and foreign. Indonesia affords examples of public enterprise where private enterprise would not adequately have developed some particular resource, essential to the whole economy, whilst India had the special problem of grain dis-

tribution for famine relief, which called for public attention. In Ceylon industrial development was not directly sponsored by the government until 1937, and then from motives of expediency rather than of political doctrine.

11. In the development of public enterprise in certain countries of the region there has necessarily been a strong nationalistic feeling which reflects the recent achievement of political independence. A colony is by definition part of the economic system of another country, and in the modern world political independence usually creates a simultaneous demand for economic independence. In countries of the ECAFE region this has led to the creation of industries capable of producing locally goods hitherto imported from Europe, Australia or North America. Moreover, in order to maintain existing enterprises there has often been no alternative to public ownership because the new nationalism has made doubtful the continued private ownership that grows out of foreign investment on a large scale. In Pakistan there has been more than the simple achievement of sovereignty; there has been the creation of an entirely new state, and this is reflected in the general public direction of economic planning and creation of development corporations to stimulate and finance industry and agriculture. Where a change has taken place in sovereignty, as in Formosa, public enterprise has also been used as a means of taking over enterprises developed by nationals belonging to the former regime, and in some respects this creates a situation similar to the withdrawal of a colonial power.

12. No single trend can be cited as typical of innovations in organization and control. With exceptions, notably in Burma, Ceylon and Thailand, there has been a general tendency to move away from the government departmental type of organization, but the alternatives adopted vary from country to country. India, Pakistan, Burma and Ceylon have made use of public corporations on the United Kingdom model, but India has also important mixed enterprises in which the government owns the capital stock but is associated with private enterprise in operation of the industry. In the Philippines civil aviation is similarly in the hands of a mixed enterprise, but this is the exception in a local pattern of development corporations.

13. It would be equally difficult to determine a single dominant trend in the administration of new enterprises throughout the region. In some countries, notably Ceylon, a civil service type of organization has been usual; in Burma the pattern has been rather the public corporation on the British model. Burma also shares with Pakistan and the Philippines experience of development corporations; whilst in India there has been a marked tendency to experiment with company organizations on the commercial pattern which are nevertheless financially under state control. One characteristic throughout the region has been the lack of available senior personnel and of necessary industrial and managerial experience, and, in spite of considerable success in specific instances, this has severely limited the rate of progress in the development of state enterprises.

14. The two world wars stimulated innovations in public enterprise. Government operations in the purchase, manufacture and even in the

sale of certain goods became necessary through war conditions, and this gave an impetus to economic changes which were already beginning. At a later stage the need to repair ravages of war, particularly in Burma, Indonesia and the Philippines, made government economic planning of extreme importance, and a dominant factor in the contemporary political situation.

15. This preliminary survey is intended only as a general introduction to the chapters which follow. Most of the organizational and administrative problems of public enterprise in the ECAFE region are as yet only in the early stages of solution, and the Seminar at Rangoon gave few complete answers; it served principally to determine some of the fields in which further research and wider experience must be brought to bear on the issues involved.

CHAPTER I

TYPES OF ORGANIZATION SUITABLE FOR PUBLIC ENTERPRISES

I.

The Basic Dilemma in Organizing Public Enterprises

1. The great increase in the number of State owned and operated business enterprises during the last decade has confronted almost every nation with a basic dilemma: How can the operating and financial flexibility required for the successful conduct of an enterprise be reconciled with the need for controls to assure public accountability and consistency in public policy? Attempts to resolve this dilemma have taken many different forms and met with varying degrees of success. Even within any single country there are substantial differences among the various enterprises in organizational and legal status, operational authority, and financial independence. The differences between countries are even more striking since each nation must necessarily seek an organizational solution compatible with its constitutional system, political traditions, governmental structure and economy. While no standard organizational plan for public enterprises has emerged, certain general trends are now discernible throughout the world.

2. There is necessarily a close relation between types of organization and organizational relationships. The present chapter deals directly with types of organization. The next one deals in detail with organizational relationships.

Forms of Organization

3. Three principal forms of organization, each with significant variations, are now utilized for the administration of public enterprises: (i) those on the same basis as other government activities; (ii) public corporations; and (iii) mixed-ownership corporations. In addition, in recent years increasing use has been made of the operating contract, under which a government contracts with a private concern for the operation and management of a public enterprise. Examples of each of these institutions are found in almost every country.

II.

Governmental Department Organization

4. Initially, no distinction was drawn between public enterprises and traditional government functions. For this reason, the oldest public enterprises such as the postal service, tobacco, match and salt monopolies, telegraph and telephone service and, in some cases, railways, both within and outside the ECAFE region, are generally organized, financed and controlled in much the same way as any other central

government department or bureau. This form of organization is still commonly employed when the main purpose of the enterprise is to provide revenue, as with the tobacco monopoly in Austria, France and Italy or to control consumption as with liquor monopolies in a number of states in the United States and Canada. In the ECAFE region and notably in Ceylon and Thailand this type of organization is also used in operating industries of many kinds.

5. The principal characteristics of this form of organization are:
   (i) The enterprise is financed by annual appropriations from the Treasury and all, or a major share of its revenues, are paid into the Treasury;
   (ii) The enterprise is subject to the budget, accounting and audit controls applicable to other government activities;
   (iii) The permanent staff of the enterprise are civil servants, and the methods by which they are recruited, and the conditions of service under which they are employed, are ordinarily the same as for other civil servants;
   (iv) The enterprise is generally organized as a major sub-division of one of the central departments of government and is subject to the direct control of the head of the department;
   (v) Wherever this applies in the legal system of the country concerned, the enterprise possesses the sovereign immunity of the State and cannot be sued without the consent of the government.

6. While this type of organization appears to assure the maximum degree of control by politically responsible officials - a factor of great importance both within and outside the ECAFE region- it falls far short of providing the flexibility essential to effective operations. This has been the experience of the ECAFE countries, as it has also been of many Western countries. It fails adequately to take into account certain distinguishing characteristics which clearly set most enterprises apart from the general run of government programmes: (i) the government is dealing with the public in the manner of a business man rather than a sovereign; (ii) individual users, rather than the general taxpayer, are to pay for the cost of goods and services: (iii) expenditures necessarily fluctuate with consumer demand and cannot be predicted accurately, or realistically kept within annual budgetary limitations; and (iv) operations are being conducted within areas in which there are well established trade practices. Under this form of organization, public enterprises have sometimes become synonymous with red tape, delays, inadequate service and insensitivity to consumer needs.

7. The basic difficulty is that most enterprises have operating and financial requirements which are incompatible with the existing governmental administrative and financial structure. For example, the keystone of financial control in most countries is the requirement of obtaining annual appropriations from the legislature. For this reason government agencies are usually not permitted to utilize incidental revenues or to retain unexpended balances of appropriations at the end of the fiscal year. Such budgetary controls would make any long-range commitments impossible and prevent expansion of service to take care of an unanticipated increase in the volume of business, although the revenues of an enterprise generally fluctuate with the volume of busi-

ness, and additional expenditures to meet increased demand do not ordinarily increase net expenditures from the Treasury. Furthermore, governmental accounting and auditing have the limited purpose of preventing over-obligation of appropriated funds and unlawful expenditures. Frequently, individual transactions must be approved in advance by representatives of the central control agencies such as the Ministry of Finance or the Comptroller. Moreover government departments generally find it necessary to lay down rigid rules for the purchase of supplies, contracts, and so on, so that there is no risk of public money being wrongly expended or dishonestly used. These rules, however, may conflict with accepted commercial trade practices and hamper individual judgment and initiative which are necessary for the successful conduct of an enterprise.

8. Use of the traditional form of government organization also tends to make it more difficult to operate an enterprise on a self-sustaining basis. Normal governmental activities are not expected to be self-supporting and ordinarily are financed out of general tax revenues rather than from fees paid by individual users of the service. If fees are charged, they bear only a coincidental relationship to the cost of furnishing the service. When an enterprise is financed exclusively by appropriations from the Treasury and cannot use its revenues, it has little or no incentive to charge rates calculated to recover all, or a substantial part, of the costs of its operations. On the contrary, it is likely to be subject to continuing pressure to provide goods and services at less than cost.

9. The more obvious weaknesses of the traditional form of Government organization for the administration of public enterprises have been alleviated in part by the development of new techniques, particularly the revolving fund. Use of a revolving fund permits much more financial flexibility than is possible under customary governmental procedure. Revenues of the enterprise are deposited in the fund, and may be withdrawn for any authorized purpose without re-appropriation. Money in the fund is permanently available and not subject to fiscal year limitations. Revolving funds have been found to be particularly well adapted to certain internal government operations involving purchase and sale of commodities and manufactured products such as supply depots and warehouses, arsenals, printing plants, and so on. A revolving fund, however, does not of itself provide freedom from restrictive statutes, personnel regulations, budget and accounting procedures and other factors which may hamper operations.

10. In the ECAFE countries special difficulties have been encountered in departmentally-run enterprises owing to the insufficiency of suitable personnel and to lack of training. The few senior departmental officers available are over-burdened with normal governmental services. In addition many of the governmental departments of these countries have been hampered by continual time-consuming parliamentary enquiries and other work connected with legislation.

11. Some countries grant selected enterprises specific exemptions from particularly irksome laws and regulations, but this has usually been done on a hit or miss basis and not in accordance with any established

policy. General legislation has also been enacted to liberalize budget, accounting and audit procedures. To take an example from outside the ECAFE region, the United States Budget and Accounting Procedures Act of 1950, stresses the need for maintaining accounting systems which will furnish adequate financial information for management purposes, and authorizes gradual elimination of procedures based on antiquated requirements of law. This Act also authorizes the Comptroller General to change the time and place of his audit, and he has now instituted the "comprehensive audit" which combines features of both a governmental and a commercial audit.

12. While it is theoretically possible to endow an enterprise organized along normal governmental lines with a high degree of operating and financial flexibility, in practice it is difficult to do so. As long as an enterprise is not clearly differentiated from other types of governmental activity, strong pressures will be brought to make it conform to standard government regulations and procedures, since emphasis on uniformity is a common characteristic of bureaucratic administration. Unless specific legal provisions are made applicable to specifically designated enterprises the effort to apply different procedures often fails.

13. To impart flexibility and allow for quick decisions in the ECAFE region, committees or boards consisting of the representatives of the various ministries are in some cases set up for departmentally run enterprises. In Burma, the Spinning and Weaving Factory Board, the Tile Factory Board, and the Paper and Chemical Industries Board are composed of representatives of the various ministries. In India, inter-ministerial Committees have been set up for execution of the Bhakra-Nangal and Hirakud Projects. The need for such Inter-Ministerial Committees arose because, in both planning and execution, the assistance, concurrence and sanction of several ministries was frequently required. Land had to be procured, water supply and electric power to be assured, railways or transport facilities to be installed, stocks to be purchased, and allocations of building and other materials to be arranged. The presence of representatives of the Finance Ministry on these committees or boards has facilitated quick decisions in regard to expenditure. In other countries, such as Thailand, boards have also been established but not necessarily composed of representatives of a number of ministries. In the recently reorganized Thai Airways Company, the Ministry of Transport and Communications and the Air Ministry are the only Ministries represented on the Board of Directors.

14. To curtail delay in procedure regarding financial expenditure, employment, appointment and dismissal of personnel the administrative and financial rules concerning government-owned enterprises have been revised in some countries of the ECAFE region as, for example, in relaxation of governmental purchasing procedure for the departmentally run State Cement Factory in Ceylon and delegation of powers to the railways in India. Recent legislation in Thailand to establish an independent Railway Authority and Bangkok Harbour Authority reveals a similar tendency. The Indian Railways have their own financial, administrative and appointment procedures and their own accounting and auditing departments; they have moreover been divided into various re-

gions each with a considerable degree of decentralization as regards operation.

III.

15. *Public Corporations*

With rapid expansion in the number of governmentally owned and operated enterprises, it became evident that a new institution had to be developed which could be clothed with the power of government, but which would possess the operating flexibility of private enterprise. The pragmatic and ready-made solution was to adopt the organization most commonly employed by large private enterprises - the corporation. The corporate device enables a government to waive some of its sovereign immunities within limited and well-defined areas, and to create an agency which can act in its own name rather than that of the state. Over the past twenty-five years the public corporation has become the most common form of organization for public enterprises.

16. The principal characteristics of the public corporation are:

(i) It is wholly owned by the state.

(ii) It is generally created by, or pursuant to, a special law defining its powers, duties and immunities and prescribing the form of management and its relationship to established departments and ministries.

(iii) As a body corporate, it is a separate entity for legal purposes and can sue and be sued, enter into contracts, and acquire property in its own name. Corporations conducting business in their own name have been generally given greater freedom in making contracts and acquiring and disposing of property than ordinary government departments.

(iv) Except for appropriations to provide capital or to cover losses, a public corporation is usually independently financed. It obtains its funds from borrowing, either from the Treasury or the public, and from revenues derived from the sale of goods and services. It is authorized to use and reuse its revenues.

(v) It is generally exempted from most regulatory and prohibitory statutes applicable to expenditure of public funds.

(vi) It is ordinarily not subject to the budget, accounting and audit laws, and procedures applicable to non-corporate agencies.

(vii) In the majority of cases, employees of public corporations are not civil servants, and are recruited and remunerated under terms and conditions which the corporation itself determines.

17. A Board of Directors is considered by many to be one of the essential attributes of a public corporation. This view undoubtedly has its basis in the fact that general laws authorizing the creation of private corporations frequently require the establishment of Boards of Directors elected by the stockholders. A board of a private corporation nominally has the duty to act for the stockholders in formulating basic policies and checking on the results of operations. In government this function is often not performed by the Board, but by the Chief Executive Ministers or Legislature. Government corporations have existed and operated effectively without a Board of Directors. Whether or not a public corporation should be managed by a Board of Directors or a

single executive, depends on the nature of its programme of operations, the qualifications which the government wishes to see represented in its management, the conception of managerial responsibility in the particular country, the influence which a particular form of direction may have on popular confidence in the corporation established administrative habits, and similar factors.

18. The chief advantages of the corporate form of organization for private enterprise - limited liability, pooling of investment, transferability of securities and perpetuity - have little or no significance for a public enterprise. The principal benefits of the public corporation as an organizational device are in its freedom from unsuitable government regulations and controls and its high degree of operating and financial flexibility. The special powers granted to public corporations are designed to enable a government, when it undertakes to operate an industrial or commercial enterprise, to render service and discharge its obligations to the public as nearly as possible in the same manner as a private business. Freedom from restrictive statutes with respect to disbursements, contracts, purchases and personnel permit a public corporation, where desirable, to follow standard commercial practice in carrying on its business. Expansion of facilities to take care of an unanticipated growth in business can be financed, without undue delay, by use of revenues or borrowed funds.

19. While the public corporation has eliminated many weaknesses characteristic of traditional governmental organization, it has given rise to new and equally difficult problems. At the outset, the reaction to excessive bureaucratic controls was to abandon controls altogether. The early public corporations such as the Port of London Authority and Central Electricity Board in the United Kingdom were created outside the normal governmental structure, and largely immune from ministerial direction and control. This development was rationalized into a theory that public corporations are by their very nature autonomous bodies with certain inherent characteristics such as independence, freedom from direction and control by "political" officers, and self-contained finance. The words "autonomous corporation" and "autonomous agency" have since become firmly embedded in the vocabulary of public administration.

20. The theory of the autonomous corporation has been seized upon in a number of countries as a convenient device for solving certain practical financial and budgetary problems. The fiction that public corporations are somehow extra-governmental has provided an excuse for disregarding statutory or constitutional limitations on the Government's borrowing authority and restrictive budget laws requiring that revenues and expenditures be balanced in any given fiscal year. In addition, public corporations engaged in revenue producing enterprises may have a better credit standing than the government itself, and can more readily borrow funds from foreign sources at reasonable rates. In turn lenders often insist as a condition of the loan that the corporation be given a high degree of autonomy to protect it against "political" interference and diversion of corporate revenues.

21. The public corporation has satisfied a very real need for a public

institution which possesses some of the operating flexibility of private enterprise, but it has sometimes done so at the sacrifice of public accountability. Existing controls to assure responsiveness to direction by politically responsible officials have often been abandoned without providing adequate substitutes. Public corporations do not function in a political vacuum. Removal from so-called political pressures may mean, in fact, that significant political power is being placed in the hands of a small, unrepresentative, and in extreme cases possibly even a self-perpetuating group controlling the public corporation. Public corporations are created to serve a public purpose, and their so-called business decisions are likely to have important political repercussions. However, as long as autonomous corporations are relatively few in number and operate outside areas of most vital governmental concern, the threat to orderly and responsible government is more potential than real.

22. Where extensive use is made of public corporations, the problem of public accountability can no longer safely be ignored. This is particularly true in countries which have assigned to public corporations responsibility for the most significant and dynamic segment of the government's total economic programme. Corporate revenues and expenditures necessarily have a vital bearing on a government's overall financial plan. Corporate programmes frequently overlap or cut across those of ordinary departments and agencies. The theory of corporate autonomy has come into direct conflict with the urgent need for bringing the operations of public corporations into harmony with related actions of the government. Means must exist by which public corporations may be held accountable for their acts to those who bear political responsibility - the Chief Executive, the Cabinet and the Legislature.

23. The autonomous public corporation persists in much its original form in many areas of the world. But the trend in such countries as the United states, the United Kingdom, Canada and France has been away from earlier concepts of corporate autonomy and toward development of new organizational arrangements and controls specially adapted to the peculiar requirements of public enterprises. While the public corporation in these countries retains its operating and financial flexibility, it has been brought within the governmental framework and in varying degrees and by different methods made subject to central direction and control. So far as wholly-owned public corporations are concerned, there is no longer serious doubt that they are government institutions serving a public purpose and functioning within the government structure.

24. The public corporation now plays an increasingly important role in the ECAFE countries. Prominent examples are the Indian Damodar Valley Corporation set up under a statute of 1947, the Indian Air Corporation Act, 1953, closely modelled upon the British Public Corporation of the corresponding type, and the Gal Oya Development Board of Ceylon which appears to differ from the typical public corporation only insofar as the Minister has much more far-reaching powers of direction in regard to activities of the Board.

Mixed-Ownership Corporations

25. The Seminar discussion revealed great interest on the part of all the countries of the ECAFE region in the concept of "mixed economic enterprise", and use of the commercial company (joint stock company) for this purpose. It should be emphasized that the term "mixed enterprise" does not describe a legal or organisational form but an economic concept. It includes various forms of joint enterprise shared between the state and private interests. The latter may be national or foreign; they may represent the shares of individual firms participating in the venture or the subscriptions of members of the public at large.

26. The participation of non-governmental interests does not necessarily call for an alternative to the public corporation proper. It is possible for public corporations - often with statutory authority - to issue interest bearing debentures or bonds which will give a fixed rate of interest without vote and other rights of control over the enterprise. It has, however, been the experience of many European countries, and more recently, of countries of the ECAFE region, that it is difficult to obtain financial investment in this way. For foreign interests in particular, the possibilities of profitable investment, in such countries as the United States, Canada and West Germany, are so considerable that the poorer and industrially less developed countries would find it very difficult to attract capital on these terms. This leaves the joint stock company, set up under same form of India's Companies Act as the main form of "mixed enterprise" which can attract private investment.

27. there are three major reasons for the adoption of the company form:

(i) The government may have to acquire shares of an existing enterprise in an emergency, in response to a financial or employment crisis, or in order to maintain a nationally important production or service which has become unprofitable or insolvent under private enterprise. This happened in many instances in Europe immediately after the first world war. The government stepped in to acquire a minority or a majority of the shares. The original intention was in most cases to dispose of the shares when the emergency had passed, and therefore the governments were seldom inclined to alter the structure of the enterprise. It has, however, been the almost universal experience in Europe (for example in France, Germany and Italy) that the governments found themselves holding these interests many years later, either because no private buyers could be found on reasonable terms, or because the participation of government in industrial enterprises had become a matter of government policy. Such situations will not often arise in the countries of the ECAFE region in their present stage of development. [1]

---

[1] But see the case of the Hindustan Shipyard Ltd. in paragraph (ii) below and Garuda National Airways in Indonesia (formerly KNILM); such instances may well become more frequent as industrialisation proceeds.

(ii) The state may wish to launch an enterprise in association with certain other interests, national or foreign. Important recent examples are Hindustan Steel Ltd., set up under an agreement between the Government of India and the German combine of Krupps and Demag. This is a private company with an authorised capital of Rs. 100,000,000 and an initial subscription of Rs. 500,000, at a permanent ratio of four government shares to one German combined share, whatever the amount of the issued capital. A joint venture of the Indian Government and private interests is Hindustan Shipyard Ltd. in which the Government holds two-thirds of the paid-up capital which it took over from a private enterprise. Another very recent example is the offer of a proportion of its shares by Pakistan Thal Industries Corporation Ltd. to farmers in the area and employees in the enterprise.

(iii) The government may wish to start an enterprise entirely as a public venture in order to put it on its feet, with the intention of disposing of all or part of it to the public, or to specific private interests as soon as possible. This is at present an important problem in Ceylon where a pending bill envisages a standard form of public enterprise which will be converted into a company on the offer of shares to non-governmental interests. The bill proposes that on the issue of shares, the members of the Board will be elected by the government and the private shareholders respectively in proportion to their shareholding, while a general power of direction is reserved to the government as long as it holds more than 50% of the shares.

(iv) In several recent instances, national development corporations have been established in the ECAFE region with a share capital, as a means of enabling them to set up subsidiary operating companies and to acquire interests in them. Examples are the National Development Company of the Philippines and the Industrial Development Corporation of Pakistan.

28. Frequently, both in Western countries and in countries of the ECAFE region, the form of the joint stock company has also been used for a fundamentally different purpose, namely to establish a pure public enterprise permanently controlled by the government. Outside the ECAFE region this practice has been particularly pronounced in Italy; inside the ECAFE region, the Sindri Fertilizers Factory is an example of an entirely government-controlled enterprise set up as a limited company. The Auditor-General of India has described the practice of constituting state-owned enterprises as private companies as "a fraud on the Companies Act and on the Constitution", and discussion at the Seminar revealed general agreement with this view. Among the main disadvantages of this device in the case of entirely state-owned enterprises are the following:-

(i) The company device evades the constitutional responsibilities which a state-controlled enterprise has, in a democratic society to the government and to Parliament;

(ii) The use of the company form and of the law regulating commercial companies usually becomes a mere fiction because all or most of the functions normally vested in the shareholders and in the management are reserved to the government by the

statute setting up the company. There is usually no meeting of shareholders because it would be meaningless, and the profits as well as the appointments to the Board are naturally reserved to the Government. In federal states - as the experience of the United States shows - this device may cause an additional difficulty where companies can only be incorporated under state laws. In such cases, the Federal Government may have great legal difficulties in liquidating an enterprise for which it is otherwise fully responsible.

29. It appeared to be the unanimous opinion of the consultants at the Seminar that where an enterprise is wholly government-owned it should be set up in the form of public corporation, or in some cases administered as a department of government.

30. Even where the commercial joint stock company is a proper device to use, serious problems arise in regard to the form and the extent of the powers which the government should reserve to itself because of the national interests involved. It is an almost universal practice of governments holding substantial interests in mixed companies to reserve certain powers. There are however, different methods of doing this.

(i) Where the government controls more than 50% of the shares it can generally assert its interests by exercise of the rights of a majority shareholder, as well as by instructions to its nominees of the board of directors. These powers should normally be sufficient but in many cases governments have reserved yet further powers for themselves.

(ii) Where state controlled enterprises in the form of joint stock companies have been established by special statute a frequent practice in Italy, - the statute itself often reserves to the government such powers as the right to determine distribution of profits, to appoint auditors or to authorise an increase of capital.

(iii) An alternative method is to restrict the powers of shareholders and operate in favour of the government by the memorandum and articles of association of the company. This is, for example, the case with Hindustan Shipyard Ltd.

(iv) Another practice is for the government to enter into a special contract with the private shareholders by which the latter undertake certain obligations. The Swedish Tobacco monopoly, for example, is exercised by the joint stock company in which the state is the main shareholder. By a contract between the government and the private shareholders the government has reserved the right to redeem the shares held by the private shareholders who in their turn may not transfer their shares without the government's consent. Other special privileges are reserved to the government by the articles of the company.

31. The foregoing observations have mentioned reservations made in favour of the government in mixed enterprises. Amongst them the most frequent appear to be: (i) the right to appoint a Chairman, or the majority of the members of the board; (ii) restrictions on the alienation of shares; (iii) restrictions on the distribution of profits; (iv) the need for state

approval of changes in the capital structure; and (v) the right of the government to appoint auditors.

32. Such special powers are not necessarily restricted to cases where the government is a majority shareholder. Frequently, especially in Germany, where the government is a minority shareholder, it has reserved certain privileges to itself by a special agreement or by the articles of association.

33. A recent Ceylon draft statute for a standardised public enterprise envisages the transformation of the public corporation into a joint stock company from the moment shares are issued to the public. It also reserves a general and special power of direction by the ministry where the government holds more than 50% of the shares.

34. It is unwise to use the joint stock company in such a way that it will create uncertainty about the position of the private shareholders and so deter private capital from investment. It is far preferable in such cases to resort to the devices enumerated in the preceding section.

V

Operating Contracts

35. A comparatively new device for administration of public enterprises is the operating contract. The government enters into a contract with an established private company for management of a public enterprise and agrees to reimburse the contractor for all costs which he incurs. The contractor is compensated for his services by a "fixed fee" set by negotiation. Within the terms of the contract, which is a management contract, leaving less freedom for the managing company that it would have if it were operating privately, the contractor is given full authority to employ and dismiss personnel, determine rates of compensation, purchase supplies and equipment, determine operating policies, and so forth. Statutes applicable to governmental agencies do not apply to the contractor; and personnel hired by him are not considered to be public employees. In this way the contractor is able to operate the enterprise to a large extent in the same way as he would if it were a subsidiary of his private company.

36. Operating contracts are utilised extensively in the United States by the Atomic Energy Commission and the Department of Defense. The Atomic Energy Commission does not itself engage in any operations but contracts with such companies as Du Pont and General Electric and various universities and non-profit organisations for the operation of its plants and laboratories. The Department of Defense has entered into similar contracts for the operation of arsenals and laboratories.

37. The principal advantage of the operating contract is that it makes available to the government the managerial skill and technical knowledge of private industry. It provides for a much greater degree of flexibility in procurement, planning and staffing than is ordinarily obtainable even with a public corporation. Operating contracts can also be used as a device to develop enterprises which the government will ultimately take over.

38. Use of the operating contract, however, raises a number of basic issues of public policy. The element of competition is usually absent, so that the Government cannot rely on conventional economic incentives to assure that contractors operate with maximum efficiency and economy. Once an enterprise has been turned over to a contractor, the government has little effective leverage in influencing his policies. The principal sanction available to the government, termination of the contract, is so drastic that it can be used only in extreme circumstances. Termination would mean a complete breakdown in the programme until a new contractor or the government could take over operation of the enterprise. It is evident that new techniques need to be developed for supervising this type of contract.

39. Another problem relates to personnel policies. Contractor personnel are generally compensated at a higher rate than direct governmental employees engaged in comparable activities. The government is sometimes placed in a position where it cannot successfully compete with its own contractors for scarce skills.

40. Experience with operating contracts is still too limited to reach any definitive judgments. But it is obvious that more study needs to be given to the advantages, disadvantages, and appropriate uses of this device, which is usually chosen with a definite purpose and as a temporary solution.

Conclusion

41. Forms of governmental organisation vary from country to country and constitutional and historical factors often introduce special organizational features which are not exportable. It cannot be said that any one form of organisation is best for administration of public enterprises in all countries and under all circumstances. All factors need to be weighed in selecting the form of organisation for a particular enterprise, including the nature of the programme, operating and financial requirements, the impact on the national economy, types of operations, the political climate of opinion and the availability of competent personnel.

42. While the public corporation has demonstrable advantages over the traditional governmental form or organisation for the administration of a public enterprise, it should not be employed indiscriminately. Despite the fact that the corporation is wholly unsuited to the normal types of government operations, it has sometimes been employed for this purpose merely to avoid irksome restrictions.

CHAPTER II

ORGANIZATIONAL RELATIONSHIPS AND CONTROLS

I

Purpose and Nature of Controls Relating to Public Enterprises

1. As with any other government programme, the relationship of a public enterprise to existing departments and ministries, the Legislature, the Cabinet or, if there is one, the Chief Executive should be defined in such a way as to focus responsibility, facilitate coordination with related programmes, and ensure consistency in over-all policy. Specifically, the responsible political officials must possess adequate means reasonably to ensure that (i) policy directives are implemented; (ii) operations and policies of public enterprises are consistent with and in furtherance of basic objectives established by the government; (iii) public enterprises and non-business programmes operating within the same area of subject matter and having the same major purpose are effectively coordinated; (iv) operations are conducted with maximum efficiency and economy and in accordance with law; and (v) sufficient information is provided to enable appropriate authorities and the public to appraise the effectiveness of operations.

2. While management on the lines of a governmental department is still widely employed within the ECAFE region and in other parts of the world, it has shown serious weaknesses when utilized for the administration of industrial or trading enterprises. As indicated in the previous chapter, many countries in the region have found that the public corporation, in one or other of its many forms, provides the most satisfactory vehicle for management of state-controlled enterprises.

3. Organizational relationships will be reflected in the location and nature of controls over public enterprises. The substance of control is generally found in (i) the law, charter or other document establishing the public enterprise; (ii) the relationships to existing departments and ministries; (iii) the extent and nature of ministerial control; (iv) the method of appointing and removing the governing board and executive officials; (v) the budget; (vi) the audit; (vii) annual reports; (viii) relationships to the legislature, and (ix) ownership. Another phase of control over public enterprises is the regulation of prices and wages, in which representatives of consumers and trade unions may play an important part. These controls are discussed below in terms of experience with public corporations and similar bodies.

4. This chapter does not deal with enterprises which are organized and controlled in the same way as the regular governmental departments and agencies.

Establishment of Public Enterprise

5. The single most critical control point is the law, decree, or other basic authority providing for the creation of a public enterprise. This is likely to determine in large measure all other organizational relationships. Generally, a public enterprises is established by a separate law setting forth in detail the name, legal status, duration, programme, general and specific powers, form of management, ministerial authority and method of financing the enterprise, or by a general public corporation law. In a number of instances, however, enterprises have been created either by executive decree, sometimes pursuant to authority conferred by general incorporation laws applicable to private enterprise, or by existing public enterprises utilizing the broad powers conferred upon them by law. Enterprises may also be acquired from private owners either by Government purchase or seizure. New corporations may or may not be established by the Government to take over such enterprises.

6. Public enterprises have been established by all the above methods in the ECAFE region. There is an increasing tendency towards the use of public corporations functioning under a special statute; for example, the Damodar Valley Corporation in India, the Union of Burma Airways Board, and other boards in Burma, based on the prototype of the British public corporations; the Gal Oya Development Board of Ceylon, the Pakistan Industrial Development Corporation, the National Development Company of the Philippines, and the Japanese National Railways. Extensive use is also made of joint stock companies, chartered in accordance with the Companies Acts of the various countries. Among the enterprises organized on this basis are Sindri Fertilizers and Chemicals Ltd. in India, and the Thair Rice Company. Enterprises such as the Cebu Portland Cement Company in the Philippines have been taken over from private companies.

7. The most interesting parallel outside the region is that of the United States, where prior to 1945, Congress, instead of creating public corporations by its own legislative act, frequently authorized executive officials to create corporations dealing with some broad area of national interest. A number of public corporations were thus chartered by executive action under the general incorporation laws of the several states. This practice gave rise to a number of serious problems. The most important objection was that executive officials were able to utilize this device to enlarge greatly their statutory authority and operations without legislative review and approval. Another difficulty was that general incorporation laws prescribe forms of organizations, financing and supervision not particularly well adapted to a public institution. For these and other reasons the United States Congress enacted a law in 1945 prohibiting the establishment or acquisition of corporations by the government, except by, or pursuant to, an act of Congress.

8. The practice of constituting state-owned enterprises under the Companies Act has also been criticized in India. The Indian Government has, therefore, decided either to initiate legislation authorizing the setting up of a public corporation for running governmental enterprises, or alternatively to introduce in the Company Law Amendment Bill a

separate chapter dealing with the companies owned, either wholly or predominantly, by the state.

9. The holding company arrangement is also quite common. One public corporation may organize and finance a number of subsidiary enterprises. The Sümerbank and the Etibank in Turkey, for example, have on their own initiative organized a large number of diverse enterprises. The Puerto Rico Industrial Development Company created and financed subsidiary corporations for the manufacture of glass, cement, pulp and paper products, shoes and leather, and clay products; and the Chilean Development Corporation has operated in similar fashion. The Philippines National Development Company and the Pakistan Industrial Development Corporation have also organized and financed subsidiary enterprises. While the holding company arrangement is useful under some circumstances, it may well result in an illogical grouping of unrelated activities. The complexities of intercorporate organization and financing are often a source of confusion and make it difficult to untangle an individual enterprise from the web of its parent organization. Probably the most important criticism is that the parent corporation is not ordinarily in a position to determine what new enterprises will best promote the interests of the national economy. Such decisions should be made by the appropriate central authorities in terms of total government objectives.

10. The United States, Canada, Turkey and the Philippines have enacted general statutes, or issued executive orders, applicable to public enterprises. The Government Corporation Control Act in the United States limits the method of establishing enterprises and provides for budget, audit and other financial controls. The law for State Economic Enterprises in Turkey provides for an annual review of State enterprises by the General Economic Commission, annual audit inspection by the Prime Minister's High Control Board, and prescribes the types of organization for these activities. In the Philippines an executive order prescribes the form of organization and control for public enterprises.

11. Creation of public enterprises by special legislative act appears to be clearly preferable to alternative devices. It is the only method which provides for advance review and approval by the legislature and executive of the objectives and scope of the undertaking, and a clear definition of legal status, obligations, powers and organizational relationships. It is important that the act itself should clearly prescribe the relationship between the undertaking and the rest of the governmental structure, and the powers, if any, of ministers or government departments to enter into the day-to-day operations of the enterprise.

12. The principle is now generally accepted that, so far as possible, governmental activities should be organized according to major purpose, or some other appropriate criteria, in a minimum number of major departments and agencies. Experience has demonstrated that this form of organization is best calculated to reduce the task of the ministers or of the chief executive to manageable proportions and to accomplish coordination of related programmes at a level below that of a ministerial cabinet or of the chief executive. Unfortunately, the term "departmentalization" throughout most of the world connotes not only an organizational

grouping, but also compliance with all of the rules and regulations generally applicable to government funds, expenditures, accounting, civil service staffing practice, and so on. For this reason, public enterprises have often been made independent of the established agencies and departments.

13. On the other hand the proliferation of autonomous corporations and agencies can serve to weaken the central government structure. The situation in Colombia, which has no less than thirty-seven semi-official agencies and corporations, is by no means unusual in Latin America. These semi-official bodies conduct some of the most important government programmes in the fields of agriculture, resource development, transportation, and communications. Yet they are outside the jurisdiction of the ministers who have titular responsibility for these areas of activity. With the draining of major government programmes into autonomous corporations, the ministries in some of these countries have become hollow shells. Under such circumstances public corporations in these countries threaten almost to become an irresponsible fourth branch of government.

14. A number of solutions to the organizational problems of public enterprises have been attempted. Current practice in the United Kingdom and Canada is to make public enterprises subject to the direction of the minister concerned with the functional area in which the corporation is operating. Thus the Minister of Transport in the United Kingdom is responsible for the Transport Commission and, since the fusion of the Ministries of Transport and Civil Aviation for the British Overseas Airways Corporation and the British European Airways Corporation. Except in the Philippines, similar relationships between responsible ministers and public enterprise have been established in most countries of the ECAFE region. This arrangement has the virtue of grouping enterprises by major purpose without subjecting them to traditional governmental controls. The device of the responsible minister is also used in Colombia, but the minister does little more than speak for the enterprise in the legislature.

15. At one time Puerto Rico followed the practice of "attaching" or "annexing" enterprises to departments. Since the "annexed" enterprise was in most instances wholly independent, this device confused lines of responsibility without producing compensating benefits. Puerto Rico has recently consolidated the key enterprises, such as the Industrial Development Company and the Transportation Authority, into an Economic Development Administration which coordinates the commonwealth's various programmes in the industrial field.

16. Various devices have been tried in the Philippines on behalf of the President and Congress to secure coordination among twenty public corporations. Since 1950 most of the public corporations have been placed under an Administrator of Economic Coordination, who is appointed by the President and is a member of the Cabinet with the rank of a head of department. The Philippine experience is not readily applicable to other countries of the ECAFE region because it suits a presidential rather than a parliamentary form of government. Moreover the coordinating Administrator is placed in the difficult position of attempting to direct other departmental heads and to coordinate numerous and diverse types of activity which have little in common,

except for the fact that they are organized as public corporations. Grouping of activities by major purpose seems a preferable method of coordinating the general programme, whether administered by corporations or government departments, below the level of the President.

17. Turkey has attempted to achieve coordination through the device of a General Economic Commission, consisting of the Prime Minister, Ministers of Finance, Economy and Commerce, Exploitations and Agriculture, representatives of the General Assembly and the State enterprises. The Commission annually reviews the programmes and performance of all enterprises, in which the Government owns more than fifty per cent of the stock, except the monopolies and transportation and communications agencies. The Commission has in practice proved to be unwieldy and has been unable to establish effective policy control.

18. There is a growing awareness that the mere fact of corporate existence in no way reduces the need for a logical and consistent grouping of governmental activities, both of a business and a non-business nature. Safeguards must be taken to preserve operating and financial flexibility. Also the place of the enterprise in the government structure should be determined by the same criteria applicable to other governmental agencies. This does not imply that all enterprises must be treated alike. As the circumstances warrant, enterprises may be created wholly outside the structure of government departments, placed under the direction of ministers, or integrated within departments.

II

Financial Controls

19. Although there is need for adequate coordination and control of public enterprises in commercial and industrial fields, these enterprises have certain freedoms from traditional governmental financial practices and controls. An important corollary of this proposition is that the nature and degree of freedom requisite to an enterprise depends directly upon the nature of normal controls over the finances of regular governmental agencies. Generally speaking, the more flexibility is permitted the latter, the less differentiated treatment is required by the former. But an essential distinction still remains. It rests upon the distinction made many years ago by Adam Smith between the government acting in the role of a trader as distinguished from the government in its role as sovereign. The main operational impact of this distinction is in the field of finance.

20. Principal elements in this freedom include:

(i) freedom from the annual appropriation process, at the very least for operating expenses;
(ii) freedom to receive and retain operating revenues;
(iii) freedom to apply operating revenues to operating expenses;
(iv) freedom from general governmental restrictions, particularly in the field of expenditures;
(v) freedom from normal governmental appropriation accounting;
(vi) freedom from normal governmental audit of operations;
(vii) freedom from central purchasing and contracting requirements.

21. Other related freedoms which are often sought include freedom to borrow money, to hire and fire, to pay salaries at the discretion of the enterprise, to control its own long-term planning, and so on. In organizational terms, arrangements of this character may give the enterprise complete or relative freedom (i) from the executive function of government; (ii) from the financial and budget departments of government; (iii) from the government's personnel and planning agencies; (iv) from its accounting and auditing agencies; and even (v) from the legislature itself.

22. The freedoms indicated above are particularly essential in governments which operate with very detailed budgets, or depend entirely on one-year appropriations; which have detailed pre-audits of accounts or require that all governmental receipts should be deposited in a central Treasury; which have low-paid personnel of inadequate quality, and so forth. But freedom also has its costs, and some of these are particularly dear in countries undertaking an economic improvement programme depending on their own resources. When these resources are acutely scarce, it is most important that each element is utilized to its maximum. All governmental programmes should be carefully co-ordinated with one another, so that there should be a central programme to which governmental agencies conform.

23. The balance between financial freedom of enterprises and central control is a delicate one, and few countries could claim a permanent solution. The bad features of extreme examples are obvious: the enterprise which operates wholly within the normal government procedures is subject to all types of controls and inhibitions whereas the "autonomous" corporation, uncontrolled by and unresponsive to executive or legislature may carry out programmes inconsistent with and sometimes antagonistic to those of the government to which they are nominally attached, and waste money and resources.

24. Economic planning in an under-developed country requires mechanisms for fitting the pieces together if it is to be effective. The programmes in the various fields of agricultural credit, industrial credit, transportation, river valley development, must be related, one to another and to the over-all economic programme of the national government. Up to now the requirement of freedom and independent initiative seems to have been the dominant factor in under-developed countries. "Autonomy" is the general rule, rather than effective central control. It seems that the trend for the near future in under-developed countries is further in this direction of freedom and autonomy. If so, it is very likely to lead to some unfortunate consequences. As new and important governmental programmes are conducted by autonomous bodies, the established government departments will inevitably lose vitality and may even become "hollow shells".[1] The limited numbers of capable governmental administrators will be diverted to the corporations which can offer better salaries and a more hospitable climate for initiative and ingenuity.

[1] A tendency already noted by Harold Seidman, in "The Theory of the Autonomous Government Corporation: A Critical Appraisal", Public Administration Review, XII, p. 96.

As the obsolete central governmental machinery continues to operate in its antiquated fashion, undemocratic concentrations of power will be built up in the public corporations. Public funds will be used for public purposes without being subject to public control, and real political responsibility will be lessened.

III

Ministerial Control

25. Ministerial control over a public enterprise may be established through one or other, or a combination of the following devices: (i) issue of general policy directions; (ii) issue of specific directions; (iii) approval or veto of specified categories of actions and policies; (iv) participation in management as a member of the governing board, and (v) appointment of governing board and managers of an enterprise. The basic underlying principle is to retain for the minister some responsibility for, or direction of, policy, whilst leaving the administration of the enterprise to the organization itself.

26. In establishing recent public corporations, the United Kingdom has provided for a much greater degree of ministerial control than was applied to similar pre-war institutions. While a minister is expected not to interfere in the day-to-day operations of an enterprise, he is often given the power to issue directions of a general character as to the exercise and performance by the corporations of their functions in relation to matters which appear to him to affect the national interest, and the corporation is required to obey such directions. The United States has also followed the practice of giving department heads a general authority to "supervise and direct" corporations and enterprises under their jurisdiction. France, on the other hand, has consistently rejected the concept of broad ministerial control and limited ministerial authority to certain basic policies, including the fixing of prices for goods and services sold by the public enterprise.

27. In some European countries the nature of governmental control is specific. Decrees under the French Coal Nationalization Act of 1946 for example, require government approval of the following matters relating to the Charbonnages de France: (i) delegation of powers to the director-general; (ii) programmes of new works, production and working plans for the coal mines; (iii) accounts and annual reports; (iv) conditions of employment; and (v) research. Thus in some respects, central governmental intervention in the affairs of an enterprise is more far-reaching in France than in the United Kingdom; nevertheless ministers in the United Kingdom possess authority to veto or approve specific actions, such as programmes calling for a large capital outlay, pensions, education, training, research, the form of accounts, and with Treasury approval, issue of new stock.

28. Developments within the ECAFE region do not substantially differ from those in other parts of the world. The principle of ministerial control over public enterprises is accepted in almost all countries in the ECAFE region and the present stage in the development of these countries makes it essential that such enterprises should be coordinated into national economic programmes at the ministerial level.

29. Differences of opinion exist, however, in the nature and extent of such control. Should a minister, for example, be limited to issuing general directives to the public enterprise on matters related to national policy, or should he have authority to issue specific directives? In Burma in many instances the board's decision must be approved by the responsible minister and, where financial matters are involved, by the Minister of Finance. With some boards, whose affairs are of great economic consequence to the country ministerial control is very strict, but with other boards engaged mainly in technical activities, ministerial intervention occurs less frequently. Under the bill now before the Parliament, the Minister of Industries in Ceylon would have the right to issue both general and specific directives to public enterprises. The Damodar Valley Authority in India is subject to general policy direction by the Cabinet. In the various Asian countries ministerial control has frequently been weaker over companies chartered under the Companies Acts than over public corporations, and the main trend has been towards greater rather than less ministerial intervention in day-to-day affairs of public enterprises. As a rule these enterprises function more successfully when ministerial control is confined to matters of general policy.

30. Since public enterprises are usually financed outside the regular budget, the government must possess satisfactory means of bringing borrowings and the issue of stock and revenue bonds by such enterprises into balance with its over-all financial plan. As already mentioned Treasury approval is required in the United Kingdom for the issue of stock, and also for the creation and management of reserve funds, the redemption of stock and disposal of surplus revenue. The General Economic Commission in Turkey annually reviews financial plans of the public enterprises. Since 1945 public enterprises established in the United States are limited to selling their notes and obligations to the Treasury; the Secretary of the Treasury must also approve depositories of corporate funds and the purchase of Government obligations in excess of $100,000. Similar procedures are generally followed in countries of the ECAFE region.

31. Perhaps the most common method of obtaining some ministerial control is to make the minister an ex-officio member, or chairman, of the governing board of a public enterprise. While this arrangement has a superficial appeal, it is subject to a number of serious weaknesses. The necessity of attending numerous board meetings may impose an unduly onerous burden on ministers who are likely to have far more important responsibilities. It was found in Colombia, for example, that ministers were directors of as many as six enterprises and frequently had to attend twelve board meetings within a single week. Furthermore, if a minister serves as a director, he may well be placed in the equivocal position of being made a party to actions which he will subsequently have to review in his supervisory capacity, or of dealing with fellow board members whose appointment and dismissal are within his authority. Furthermore, if chairman, he will be subject to detailed questioning in Parliament concerning day-to-day operations of the enterprise.

32. While for these reasons it is generally considered undesirable for a minister to serve as chairman or member of a board, special circumstances may require deviation from this principle. For example, Burma has found that inclusion of ministers on boards has tended to accelerate rather than retard the conduct of operations.

33. The actual membership of the board has some importance in this connection. It is desirable that the chairmanship should, if possible, be a whole-time appointment so that the chairman may become personally identified with the undertaking, and he should not be overshadowed by the minister. The members of the board should not be too numerous for effective decision, nor should they represent special interests or their advice will become less objective and so less valuable.

Board Members and Executive Officials

34. Even in the absence of other statutory authorities, the power to appoint and remove members of the governing board, the administrator or managing director of a public enterprise may be sufficient to establish effective ministerial control. When a minister has the right to appoint and dismiss, he need not rely on written orders and directions to make subordinates comply with his policies. Conversely, if the governing board is created in such a way as to eliminate or limit the minister's powers of appointment, express authority to issue policy directives may be of little avail.

35. In most countries of the ECAFE region, appointment of a board of directors has been the function of the government, exercised by the minister, under whose department the activity falls. Generally the government nominates official members of the board even though in a few instances outstanding and experienced men, with no official position, have been appointed, as in India. In Thailand and in the Philippines, the Board of Directors is almost entirely composed of government officials, nominated by the government. In Burma, unlike the United Kingdom and most other countries, Members of Parliament are also members of the boards of the public enterprises. This seems to confuse the executive and legislative functions of government, and may bring the deliberations of the board into the realm of politics.

36. In Australia the first attempt to separate public enterprises from politics was made over seventy years ago, and although this policy has been successful at Commonwealth level, there is still a tendency for state governments to interfere in the management of public corporations.

37. In the United Kingdom, the United States and many other countries, governing boards are appointed either by the responsible minister or department head, or the Chief Executive. British ministers are sometimes also given the power to enlarge or reduce board membership. In Canada, boards are generally appointed by the Cabinet upon the recommendation of the responsible minister. The Council of Ministers in Turkey appoints the boards of the major public enterprises. Ordinarily, the principal executives of the enterprise, such as the managing director and treasurer, are appointed by the boards in these countries. It should

be noted that the trend in the United States is toward use of single administrators, appointed by the President or department head, for management of public enterprises, so that the boards are being increasingly confined to advisory functions.

38. In France public enterprises are administered by boards whose members are nominated by the three interests represented thereon: government departments, employees and consumers' organizations. The chairman of the board is appointed by the appropriate minister from among its members. This tripartite arrangement has tended to make directors partisans of particular interests with the result that boards are unable to provide unity of purpose, energetic administration and coherent policies. The weaknesses of this type of board are in part counterbalanced in France by giving to the minister, not the board, the right to appoint the Director-General of the enterprise. On the other hand if the Director-General is thus appointed, he may turn his loyalties to the minister rather than to the board.

39. A slightly different pattern has emerged in Colombia. Interlocking directorates are common with one public enterprise being represented on the board of another. Directors are also appointed to represent various private organizations such as the Chamber of Commerce, the cattle industry, the Farmers' association, the Engineering society, and so on. The President of the Republic appoints directors of fourteen enterprises, but only in three cases does he name more than two directors and in six he appoints only one. A majority of the board of some of the most important enterprises are named by private groups which can be held accountable to neither the government nor the people. Selection of directors by private groups is also common in other countries where extensive use is made of mixed-ownership corporations. Vesting of governmental authority in private hands is often a reflection of a basic lack of confidence in the government.

Financial Reports

40. Although financial reports are an instrument of control, they should be distinguished from financial control as such. A national government may and should establish a reporting pattern without becoming involved in the details of budgeting and accounting. Enterprises in most cases should maintain their accounts in accordance with traditional commercial practice, with balance sheets, income and expense accounts, accrual and cost accounts, depreciation accounting, and so on. Summaries of past operations, together with projections for the future, should be made available to a central agency (budget bureau of central planning or statistical office) as a part of a comprehensive pattern for the reporting of financial activities of the entire government. To plan what a government should do in development and stabilization, it is necessary that it should know what it has done and is now doing. [1] To be meaningful

[1] The specific measures of aggregate governmental activity which are needed for governmental policy formulation purposes, together with an examination of the techniques of integrating public undertakings with the other sectors of government set forth in United Nations, Budgetary Structure and Classification of Government Accounts, New York, 1951, pp. 3-21. See also J. R. Hicks, The Problem of Budgetary Reform, Oxford, 1948.

for over-all planning purposes, such financial reports should be related to, and accompanied by, reports on performance and work accomplished. In other words, they should make possible the assessment of the effectiveness of the activity of an enterprise not only in terms of money but also in terms of results and costs. And such reports should be synchronized on a periodic basis with other reports of the government concerned to make possible their analysis in terms of the totality of government operations. Finally, they should be made available not alone to the executive agencies of the government concerned but also to the legislative bodies and, ultimately, to the public.

41. The production of a financial report necessarily involves a most important instrument of control, namely an effective post-audit of the financial operations of a public undertaking. Such an audit may be conducted by a private, accredited firm or by the central accounting agency of the government, provided, in both cases, that the reports are made to competent authorities in the governmental structure. In most underdeveloped countries, it would be a mistake to attempt to assure accountability by means of the pattern of accounting controls applicable to regular governmental agencies, especially those administered through a pre-audit of government expenditures. [2]

IV

Relationships to the Legislature

42. Public enterprises are commonly required to submit an annual report to the legislature, and sometimes to the executive, covering operations for the previous fiscal year. Such reports are of very great importance since they offer regular opportunities for the government, the legislature, the public, and incidentally for the board or other controlling organ of the enterprise, to take stock of its operations. They may be very elaborate or bare financial statements. The scope and content of the report is ordinarily determined by the management of the enterprise, and whilst over-elaboration of statistical data is unnecessary, a full and comprehensive statement, giving significant comparison with previous year's operations is very desirable. Annual reports frequently provide an occasion for general debate in the United Kingdom Parliament; whilst this affords an excellent opportunity for broad discussion, detailed criticism is likely to be of limited usefulness since the debate takes place a year or more after the events covered in the reports. While the annual report is often a valuable device for informing Parliament and the public, it is not a satisfactory substitute for a system of reports disclosing significant information about current operations and an independent audit, both of which are normal instruments of management.

43. Under the parliamentary system of government, ministers are in turn responsible to the Parliament, and it is to the Parliament that we must look for ultimate control over public enterprises. Public corporations in the United Kingdom, according to Herbert Morrison, "are

[2] In fact, in some countries, it would appear that autonomous corporations were created primarily for purposes of avoiding the over-control inherent in pre-audit by the central financial control.

accountable to Parliament through ministers on matters for which ministers are themselves responsible." In practice, Parliament has neither the time nor the technical competence to supervise effectively public enterprises and must rely on the ministers to establish necessary public control. Parliamentary control is exercised principally by means of questions directed to the responsible ministers, general debates, and studies and reports of select committees.

44. Probably the most effective technique is the question time. While the "management" of British and Canadian public corporations is not considered an appropriate subject for parliamentary inquiry, answers must be given concerning matters of policy. Questions on public corporations are, therefore, more restricted than those about regular government departments. The term "management" has been, however, subject to a number of diverse definitions and interpretations. One minister, for example, answered questions about dirty coal, while another refused on the grounds that such questions related to day-to-day management.

45. Within the ECAFE region parliamentary enquiries are much more likely to deal with the day-to-day operations of public enterprises than in either the United Kingdom or Canada. There is considerable apprehension in such countries as India, that the managers of public enterprises, unless brought under close parliamentary scrutiny, might become independent of the elected representatives of the people and develop into a powerful managerial class.

46. In the United Kingdom, Parliament also provides control through the scrutiny of its standing committees and its power to appoint select committees to investigate and report. Public enterprises, like the old departments, come under the jurisdiction of the Committee on Public Accounts. This Committee is gravely handicapped in dealing with public enterprises because it cannot utilize the Comptroller and Auditor General and his staff and has no other means to audit these activities. Its control has thus proved to be more potential than real.

47. The relationship of public enterprises to the United States Congress does not differ significantly from that of other departments and agencies. The Congress enacts the law creating the public enterprise, reviews and approves its annual budget programme, and conducts special studies and investigations. Directors of the principal public enterprises are subject to Senate confirmation. Investigations may be conducted either by special or standing committees. One of the standing committees of the House of Representatives has adopted the procedure of holding hearings on the annual audit reports submitted by the Controller General. These hearings have been generally constructive and have led to needed reforms in conduct of the enterprises. A number of enterprises have also been the subject of extended and searching investigations by the Congress. A congressional investigation, for example, brought about the complete reorganization of the Reconstruction Finance Corporation and the replacement of its board of directors by a single administrator.

V

Profits and Losses

48. It is in the relationship between the Legislature and public enter-

prises that most attention is given to profits and losses, since most legislative bodies have ultimate control of the finances of the government.

49. The profits or losses of public enterprises involve two separate questions: (i) should there be a deliberate policy of rate fixing or pricing to obtain either profits or losses? and (ii), How should involuntary profits or losses be handled?

50. The first question rests basically upon a judgement as to the extent to which the objectives of good business management are coloured with larger social and economic purposes. If we assume that no such larger objectives are superimposed, the guiding principle is a simple one: the enterprise should make neither a loss nor profit after meeting all capital charges. This requirement of covering costs - neither more nor less - is to prevent over or under expansion of the industry in which the enterprise is operating. It is a necessity for the most efficient use of a community's resources.

51. But rarely are public undertakings completely independent of other aspects of public policy. Governments earn profits in some enterprises because certain monopolistic elements make it possible. Such profits become governmental revenue, entirely comparable to taxes. In fact, this may be the reason for the enterprise, as in the cases of the tobacco monopoly in Thailand and the rice export monopolies of Burma and Thailand. Likewise, the posts and telegraphs in India are operated with a rates policy intended to supply large profits to swell the public treasury.

52. A conscious program of incurring governmental losses may be exercised in the pursuit of public policy. Such losses are an outright administrative measure to provide subsidies. India and Ceylon, for example, used to incur losses in their distribution of imported food grains to prevent food prices from rising; and the jute and cotton boards in Pakistan purchased these fibres at prices higher than those in the world market. Utilities are frequently operated at a loss to provide subsidies to consumers.

53. Where such profits or losses are part of public policy, they should be credited to government revenue periodically, or charged to the government budget, which is subject to approval by the legislature. Anticipated profits should not normally be available for expenditure at the will of management. The decisions on public policy (as to whether and to what extent an enterprise is to operate on a profit, loss, or cost basis) should thus be taken to an executive and legislative level rather than being made by internal management.

54. As to the unintended profits and losses, the treatment may depend upon various circumstances. If the undertaking is earning profits which are not intended as taxation, then the right course would be to eliminate them by reducing the price of the service. Similarly, if no subsidies are intended, prices to the consumers should be raised to the cost level in the event of continuing losses. Windfall losses of any size normally require a current appropriation as part of the regular budget, and they should be so handled through the executive and legislature. In this case, as in other matters affecting finances of public enterprises, every effort

should be made to ensure that decisions are not made "unilaterally" by the enterprise, but "multilaterally" in the light of other aspects of the government's economic programme.

55. Public enterprises producing goods and services whose prices are determined by the world market should be managed on similar lines to private concerns; profits would normally benefit the only stockholder, namely the government. If they operate more or less continuously at a loss but are kept in operation for special reasons (employment, foreign exchange, and so on), the cost will have to be borne by the general budget. This will provide a receiving opportunity to compare the cost with the advantages aimed at.

56. There is an additional element which may enter into the profit and loss picture of the enterprise, namely social costs which are incurred outside the actual operation of the business for such purposes as health or housing. These are real costs if they are incurred to increase efficiency or productivity or as a subsidy on wages, but are not real costs when entered into as a special charge resulting from governmental ownership and policy.

VI

Mixed Ownership

57. The problem of organizational relationships is greatly complicated when ownership of public enterprises is shared with private individuals or groups. Mixed-ownership enterprises tend to demand all of the privileges of governmental status while refusing to accept any of the obligations. Use of mixed-ownership enterprises creates a "twilight zone" in the national economy which is neither governmental nor private.

58. Following the pattern of the private joint-stock company, private shareholders in a mixed-ownership enterprise are generally accorded the right directly to name representatives on the governing board. The number of directors named by private interests is sometimes entirely disproportionate to the percentage of their investment in the enterprise. The result is often to give to private interest groups undue influence in making decisions as to the disposition and use of public funds, and policies which are properly of national concern.

59. A mixed-ownership corporation may provide a useful device for promoting the development of a new industry pending eventual private ownership. In some cases, however, the enterprise has been purchased by private shareholders out of profits made from investment of interest-free funds furnished by the government. The United Kingdom, Canada, and the United States have found it preferable to encourage the development of new industries by subsidies, loans, or other incentives rather than by joint ownership. The present trend in the ECAFE region, however, is to make increasing use of mixed-ownership enterprises, but this is related in some degree to the need for foreign capital or foreign technical help, a need which will gradually disappear with development of local skill.

60. As a permanent arrangement, the mixed-ownership enterprise appears to afford few tangible advantages. The government need not rely on private investors for equity capital. Access to private money markets is possible

through sale of revenue bonds without sharing ownership. A public enterprise is designed to accomplish a public purpose, and profits, if any, are incidental to this. The object of private enterprise is to earn a profit for the proprietors. A mixed enterprise is likely to accomplish neither of these objectives very well.

61. Where mixed-ownership enterprises are prevalent, the trend is toward increased control of specific matters with a consequent loss in flexibility. The government may appoint the senior executive of the enterprise, and give him power to control wages, prices and similar matters, subject to direction from the minister concerned or other responsible representative of the government. Such direct controls are necessary because the peculiar composition of the governing boards of mixed enterprises tends to make them unresponsive to policy direction by higher authority.

62. Cambodia has a unique problem of dredging the Mekong River. The creation of a Port Authority is impracticable owing to the unusual length of the navigational channel, and this difficulty may require an operating contract rather than any form of public ownership.

Conclusion

63. Experience in many countries has demonstrated that it is possible to establish organizational relationships which assure public accountability without impairing the flexibility necessary for the effective conduct of a public enterprise. The choice is not merely between the equally unsatisfactory alternatives of treating public enterprises as if they were either private commercial companies or traditional government activities. New types of relationships and controls have been developed which reflect the peculiar operating and financial requirements of commercial and industrial undertakings. While these new types of relationships and controls were designed in terms of the special conditions within a given country, they do provide useful guides for approaching the problem of public accountability. In the final analysis, however, each country must seek a solution compatible with its own government structure and local needs.

CHAPTER III

PROBLEMS OF PERSONNEL MANAGEMENT

I

The Background to Current Personnel Problems

1. In the development of new industries and public enterprises the solution to the basic technical problems are the same throughout the world, because the results of scientific research and industrial development are freely available. Peculiarities of terrain or climate may demand special solutions, but with modern technology material problems are seldom insuperable. The relative degree of general industrialization is, of course, an important factor in the speed of progress, and availability of raw materials may influence choice of a particular process or location of an industry.

2. In the recruitment of staff to operate public utilities and manufacturing industries, the situation in Asia is far different from that in Europe, North America or Australia. The plant or factory itself may be entirely novel; it may be situated in an area with no readily available supply of labour, or housing for the workers. There may be no inherited tradition of skill, no ready familiarity with mechanical appliances, no idea of standards of output or productivity and no appreciation of the exacting standards of mass production or even of occupational hazards. The educational system of the country may not meet the needs of an industrial society; there may be problems of cultural adaptation, and it may be desirable consciously to preserve some semblance of the agricultural community life from which recruits to industry have been drawn. In early stages of industrial development, deficiency of skilled personnel in the new enterprises can hardly be made good by recruitment from others, and even if a few outstanding individuals are available to form the nucleus of a directing staff, or can be borrowed for a time from other countries, there will be a dearth of intermediate managers and supervisors able to carry out policy and train operative workers. The specialized skills of the accountant, the draftsman, the typist, the designer, the production and the maintenance engineer are likely to be in very short supply.

3. The director of personnel thus has no easy task, and in framing proposals for a recruitment or a training policy, he must consider certain fundamental issues. He cannot hope immediately to obtain a high standard of skilled operation: should he therefore base his outlook on a lower standard, with its implications of inferior workmanship, and of extra numbers to make good a slower rate of production? He has not the support of the right kind of general education; should he attempt to make good this deficiency within his own enterprise, or should he urge

a modification or improvement of the country's educational system? He will find it very difficult to recruit senior staff; should he ask for forebearance in accepting a lower standard for the time being, perhaps for a decade, or should he propose an ambitious and probably expensive programme of overseas scholarships and visiting foreign technicians? What will be the underlying philosophy behind the career prospects which he offers to potential higher managers when they are recruited? What are his intentions in relating the need for promotion within the organization to the need for drawing on senior recruits with useful experience elsewhere?

4. It may even be that other considerations also affect personnel policy. A government may wish to develop public works and enterprises as palliatives to unemployment; or an industry may at first have to be run uneconomically to avoid depending on other countries for processing a particular natural product which is in abundant supply; or a public enterprise may be undertaken for the sake of important secondary benefits, such as the opening up of a particular backward area.

Recruitment of Personnel

5. In the recruitment of operative and clerical staff, the quality available necessarily dictates policy. Good location of industry may help to secure a better type of recruit, but with some industries this is impracticable. In electrical generation, for example, the location may be dictated geographically whilst a transport undertaking may have to operate and therefore, in greater or less degree, to recruit everywhere. When an undertaking must be located in a remote area where direct local recruitment is virtually impossible, adequate housing for the workers and elementary medical and educational facilities, may have to be provided.

6. For a time the available supply of recruits may be below the standard which must ultimately become normal, and so the situation must be kept fluid in order that less satisfactory workers can be discarded when a higher standard of skill and aptitude is developed. Good selection and an effective system of probation are therefore unusally important. It may even be necessary in the early stages to offer special inducements to stimulate recruitment, but these should be avoided as far as possible; if they are consolidated into normal conditions of service they continue to increase operating costs after their usefulness has disappeared.

7. A new enterprise is likely to be entirely dependent on its own resources for supervisors and for the middle grades of management. Its primary problems in this respect are therefore selection and training. The selection of an indifferent supervisor will react unfavourably both on the immediate working group and beyond it, and poor supervising staff do not make good recruits for the all-important junior ranks of management. In the infancy of the organization it will be extremely difficult to find the necessary skills and aptitudes for supervising responsibility amongst workers with whom the novelty of industrial occupation has not yet worn off. In the early stages, therefore, a promotion policy must be worked out by trial, with ample margin for rectifying errors. The possibility of introducing outsiders, even foreigners, with long or short contracts, should be explored; but the eventual aim should always

be a scheme of advancement within the organization to give adequate encouragement to good workers; it will become an added incentive to recruitment to the basic grade and a means of persuading individuals to remain with the organization for a long period.

8. At the most senior levels, problems of recruitment are difficult out of all proportion to the small numbers of such appointments. Three types of personnel are principally concerned, a directing group, for which administrative aptitude is required, senior management, which needs to be familiar with the technology of the enterprise as well as able to organize its operations, and senior technical staff whose professional advice is decisive in the success of the organization.

9. This senior staff is nowhere easy to find; in the country new to industrial development it is nearly impossible. There is a general lack of experience even amongst the better-educated members of the community; the civil service already has its own overwhelming problems and lacks experience of working with industry. It is difficult to find men with the necessary experience, technical knowledge and ability to fill a constantly increasing number of senior posts. The qualifications are somewhat numerous; leadership, financial experience, good judgment, organizing ability, technical knowledge, competence in the management of personnel and in dealing with conference and delegations; in the less developed country willingness to make bold innovation and something of the pioneering spirit are also particularly necessary. The man with all round capability of this character is hard to find and the only solution therefore is to select the best available candidate with the highest combination of these qualities.

10. There is often a temptation to place a premium on technical competence; indeed in the short run the technical man with adequate other qualifications may prove to be the best choice since in the early days of a public enterprise the most pressing needs are usually the technical ones. In a small enterprise, whose principal problems are in the field of production, a man with technical experience may prove to be the most suitable. Nevertheless overall competence is essential for a senior executive and the search for possible candidates should cover as wide a field as possible. A senior civil servant with good general training and ability may prove to be a good manager, even if at first he lacks a knowledge of industrial technology; a man with other admirable qualities may fail through inexperience of finance or through lack of human understanding.

11. Interchange of senior personnel between one corporation and another and between the public service and public corporations, has already proved successful both in the countries of the ECAFE region and elsewhere. This is especially true of managerial appointments with more general executive responsibility; for immediate shortages of senior technical officers there may be no alternative to the introduction of foreign technicians, but this policy must be supplemented by an energetic local development of higher educational facilities, since in the long run a public enterprise must supply its directing skills from within its own country.

12. Where higher competence is in short supply it may be necessary to establish a central personnel agency, responsible to the government and controlling disposal of the available manpower to best advantage between public service and public corporations. Such an innovation would control skilled personnel by a rationing scheme, a process already familiar where supplies of an important raw material are inadequate. In this way fair distribution would be ensured and no one enterprise would secure preferential treatment.

13. A further useful step in this process is the management inventory. The proposed central personnel agency, having determined the number and allocation of the senior posts necessary for the effective functioning of government and private enterprise, should ensure that they are filled by the best available candidates, distributed as may be most suitable in the general interest. A schedule should then be prepared of likely dates of foreseeable vacancies, and opportunities should be given to promising men now in more junior positions, so that they may have the necessary experience and training to be available for promotion when the time comes. In this way the next generation will have time to become better qualified than their predecessors, who may have had to face the acute difficulties inherent in an initial period of rapid development.

II

Training

14. During the past fifty years the need for more thoroughly organized and improved methods of training has increased, primarily as a result of technological development. The organization of industry has become more complex; research and development have placed in the hands of the industrialist refined and more complicated processes. At the same time mass methods of production have led to greater concentration and size of industrial units; a narrowing margin between rising costs of production and selling prices, low enough to maintain the large consumer demand necessary to make mass production profitable, has made economical organization and careful evaluation of cost exacting requirements of success.

15. Thus management is more highly specialized; the subsidiary skills of the efficiency engineer, the cost accountant, the research staff, assume greater and greater importance and although the operative worker may have a relatively simple task, the criteria of accurate and successful operation are nevertheless exacting. To support this more complex organization, specialized clerical skills have been developed and a wide and varied system of communications has become necessary. At each stage in the organization there is thus ever-increasing complexity, and careful training is necessary to fit the individual worker to his task. In the less-developed countries every effort should be made to retard the growth of an unduly complicated organization. Where administrative and managerial staff is not readily available, possibilities for the simplification of the organizational structure and its methods should be constantly and carefully studied.

16. In the initial stages of any public enterprises training costs are necessarily heavy, and the question arises whether the organization should meet its entire training costs out of current expenditure. If the cost of training at this stage is out of all proportion to what it will be once the enterprise has settled down, it appears reasonable for at least some of the extra expense to be subsidized by the government, either directly or by training given by universities, technical colleges or central training establishments supported by the government. There seems to be no reason for training costs to be debited to capital expenses, except where a genuine capital cost such as erection of a building or the purchase of permanent equipment is incurred.

Methods of Training

17. Although training methods vary, there are basically three systems of instruction. In the training of unskilled workers the newcomer can be shown what to do, and with a few hours practice will do it reasonably well. For skilled workers there are two methods of approach: either the individual is allowed, under skilled guidance, to undertake gradually the task which he is intended to perform, or he is given tuition under artificial conditions at a training centre. Individual instruction is based on apprenticeship; the training centre method applies the technique of the lecture room to vocational instruction.

18. Any training calls for some measure of organization. Standards of performance must be prescribed for unskilled as for skilled workers; recruits who do not reach these standards within a reasonable time should be dismissed; full-time instructors may be required, or if the normal supervisory staff gives the training, each member of it must be aware of his responsibilities. Moreover there is a close relationship between training and recruitment; new workers must be available in the right numbers and at the right time.

19. In the more developed industrial countries the general educational system contributes to industrial training, technical and trade schools are available before the youth enters industry, and continue to supplement his training on a part-time basis. Vocational certificates of knowledge and craftmanship, secured by examination, are an asset to advancement and proof of the possession of specialized knowledge. This vocational training is of particular importance in the development of good supervision.

20. The less advanced country lacks these educational facilities; it is unfamiliar with the technique of apprenticeship in large-scale industry; it has no ready supply of workers with inherited aptitudes, and it has yet to gain experience in training methods. It must therefore assess priorities amongst these requirements. The creation of improved educational facilities may take too long to be of immediate help, but an early beginning must be made because of the time needed for their development. There may already be some experience of apprenticeship in small-scale industry; but again there may not be time enough for industrial apprenticeship to become quickly effective. The overwhelming demand for skilled labour in a measurable future may make it essential to develop large-scale training projects which aim at a short period of instruction for the individual.

Supervisory Skills

21. The supervisor is at one and the same time the organizer, the manager and the instructor of his working group. Where the operating staff is relatively inexperienced, supervision becomes even more important. Complex and skilled jobs may have to be broken down to adapt them to the capabilities of the available workers. This increases the need for effective co-ordination between individual employees, which in turn increases the tasks of the supervising staff.

22. In training of supervisors, time is important. The small, well established organization in a society which affords good opportunities for vocational education can allow its future supervisors to mature under careful guidance over a long period. The large, and the rapidly expanding concern must adopt methods designed to achieve quicker results. Amongst the most highly organized schemes of this character is the one known as Training Within Industry developed in the United States and in Europe during the last fifteen years.

23. Training Within Industry concentrates on three phases of supervision: the need to instruct (Job Instruction), the need to handle staff effectively (Job Relations) and the need to organize (Job Methods). For each a course has been devised lasting five half-days based on a standard manual. The method of instruction is by discussion, and with the relatively short time available, the course deals only with primary essentials. The most important feature of Training Within Industry is that it offers a general programme, irrespective of the individual industry.

24. The original scheme has been amplified and modified in various countries. For example, in Belgium, Training Within Industry has become part of the wider activities of the Committee for the Orientation and Training of Key Personnel in the National Economy (Comité pour l'orientation et la formation des cadres de l'économie). In addition to the three TWI programmes, the courses organized by the Committee include industrial hygiene, elementary psychology, work study, Belgian social and economic problems, labour legislation, accident prevention, report writing, and elements of leadership and management. Similar developments have taken place in France.

25. The ILO is developing Training Within Industry in many parts of the world.

Office Processes

26. Training in office skills has in recent years assumed greater importance in countries with extensive commercial and business activities because large office organizations, made possible by the invention of business machinery and by systematization of office processes, have made office work as specialized as factory work, with a consequent need for training at every phase of it.

27. Excessive specialization and mechanization do, of course, carry with them the danger that routine operations may tend to discourage the really intelligent workers and may even become a barrier to their advancement. Thus improvement in performance should be sought, wherever possible, by better general education and by better training within the office. Training in the particular skills of the typist and shorthand

writer have usually become part of normal commercial education, but its importance has not always been fully recognized in less developed countries.

Management

28. Training for management is the most controversial of all phases of training; so far its problems have found the fewest satisfactory solutions. Successful management demands more than innate organizing ability and occupational skill. Modern industrial processes require an intelligent understanding of scientific discovery; modern commercial organization demands a knowledge of economics, finance and accounting; and the scale of modern operations imposes an entirely new approach to personnel management. There are no easy ways of meeting these requirements, which call for general education as well as technical knowledge. Success at the top level of management may depend to a large degree on the selection of the right individuals to intermediate posts, where they will secure the training and experience necessary to undertake the highest responsibilities a few years later.

29. It is clearly valuable to arrange for controlling officers in a newly developing enterprise to visit a more advanced industrial society in the hope that they will return with a sufficient technical knowledge to perform functions of management successfully, but they must make an effort to assess how far conditions at home differ from those abroad. In personnel management in particular, national habits of thought and social customs are frequently the dominating factors.

30 In the under-developed country unconventional methods may be neccessary in management training. Apprenticeship for a year or two in a medium-sized enterprise in a developed industrial country may be more useful than an academic course in industrial or business administration. This assumes that industrial organizations abroad would be willing to offer facilities. There has been a good response in most European countries to requests from the Educational Association for the Exchange of Students for Technical Experience to place foreign university engineering students, and it is to be hoped that an international arrangement of the kind suggested, which would involve somewhat more mature students, would meet with an equally friendly reception.

31. A new enterprise has to develop habits of management which are taken for granted in a more mature environment. A new organization may fail to secure an adequately high standard of management, because the managers themselves are not entrusted with sufficient powers of individual initiative and decision. Where there is a general lack of experience, devolution of authority may not be easy but management cannot function effectively unless effective responsibility is entrusted to individual managers. Equally, when there is a general unfamiliarity with the problems of management, it may be necessary to adapt the functions assigned to particular individuals to their capabilities, outlook and ambitions.

32. The age of students is an important factor in education for management. Some preparation is necessary at a relatively early stage; the future manager must understand the technical background to his work

and learn to appreciate the role and importance of such related matters as organization and methods, the preparation of a balance sheet, cost accounting, auditing, maintenance, distribution, transportation and the elements of personnel management. The best use of this knowledge and the development of sound judgment can only come with experience, and in a sense the manager's training is a continuing process over a relatively long period of active work, even if it may begin with a course of formal instruction. At a later stage an opportunity to take stock of his own ideas and experience in discussion with colleagues and fellow managers is useful and stimulating.

33. In France a number of technical schools, Ecole des Mines, Ecole des Ponts et Chaussées, Ecole des Postes, Télégraphes et Téléphones, Institut National Agronomique, Institut National de la Statistique, Ecole Nationale d'Agriculture, Ecole Nationale des Forêts, Ecole Polytechnique, Ecole Nationale d'Administration, play an important part in the early education of future administrative, directing and managerial staff. In the United Kingdom a management training centre which has proved extremely successful is the Administrative Staff College which selects its pupils around the age of forty, at the time when they are just about to take up senior positions; its method of work is almost entirely devoid of formal instruction or of academic study. The students learn by the study, in selected groups, of a series of problems which call for the full range of their ability, and great emphasis is given to the value of their practical experience.

34. In some countries the university plays an important role in training of this character. At Manila the University of the Philippines has already developed courses in public administration and has assisted the government with schemes of in-service training. A library of specialised literature on the subject is also being built up.

35. There are many reasons why the training programme of any organization ought to be self-supporting as far as possible, particularly because it is so intimately linked with the general policy of personnel management, but at the same time every department or corporation should be ready to accept help and guidance from a central training agency, if one exists. In some countries such an agency may be directly sponsored by the government, but in others (as in Manila) the university with its greater experience of educational methods and techniques may be in a better position to foster training schemes both in public enterprise and in the public service.

36. It is generally agreed that the university can prepare students before they take up industrial or government appointments, but many universities do not attempt to pursue this kind of training at a later stage. Nevertheless there are instances when universities assist with management training programmes. In the United States there is a close relationship between the universities and industry, and in the United Kingdom three universities are offering post-graduate courses in personnel management, whilst a number of technical colleges are conducting less advanced management courses.

37. Where innovations in public enterprises are being made on a large scale, training for management faces two serious difficulties: the students are likely to be of an age beyond that of any university experience and their training cannot be on the normal academic lines. Thus an institute of training in management cannot readily be associated with a university.

38. A proposal for an International Institute of Management was made in the Report of the ECAFE/ILO/UNESCO Inter-Secretariat Working Party on Trained Personnel to the Committee on Industry and Trade issued on 4 November 1953, (E/CN.11 I and T/95).

39. A regional centre might in the short run be created more quickly than several national centres; but in the long run, since a characteristic pattern of public corporations is likely to be evolved in each country, a national centre might achieve better success in its own field. Moreover, it is arguable whether the managerial staff of public enterprises should be trained in isolation, or together with colleagues in government departments and private enterprises.

Educational Problems of the Less Developed Countries

40. In every country the educational system has grown up to meet the demands of the social, industrial, economic and political situation. In Western Europe this has taken place in a society where change has been relatively gradual since the early years of the nineteenth century. The pace of scientific development has quickened; there have been decisive changes in world markets as well as important developments in political thought, and the general political and social climate has been influenced by the two world wars. Nevertheless, in these countries there has been opportunity for continuous evolution and an educational system has been developed which provides highly trained specialists, directing staff with managerial aptitudes, supervisors and operatives at various grades of skill and aptitude. With a more rapid expansion of the whole economy and under the influence of large-scale immigration, an educational system has been evolved in the United States which differs from that of Western Europe, particularly in its greater emphasis on technology, and specialization but nevertheless based on demands of an industrial society broadly similar in character.

41. At the higher levels of administration and management the tendency in France, and more particularly in the United Kingdom, is to place emphasis on broad intellectual background, whereas in the United States more attention is given to specialist knowledge and to specific training in management skills. The British solution tends to greater versatility, which is important where this kind of highly skilled manpower is not available in such abundance as in North America.

42. The country which is new to industrial development is usually backward in its development of general education even if it has a good educational tradition on a restricted scale. In development of school and university facilities, it therefore has other pressing needs besides those of industry and commerce. In particular it is almost certain to be preoccupied with the development of elementary education on a widespread scale. The school-leaving age may therefore still be low because the building of schools and the training of teachers has not yet caught up with the needs of primary education.

43. The school-leaving age inevitably becomes the age at which young persons seek employment, and whilst juvenile labour, if not exploited, is not necessarily a social evil, it is not desirable in an industrial society. Therefore, if the school-leaving age is low, the large-scale enterprise, looking for workers, must recruit amongst people who have already had some other employment, unless it is prepared to bridge the gap between leaving school and the age of fully effective adult occupation by some enlightened scheme of juvenile employment associated with part-time continued education. Either way it has to meet a training problem with very little direct support from the general educational system.

44. At the intermediate and higher ranges in the industrial system the problem becomes more acute. For general supervision and junior mangement good general education is an important asset. Outstanding individuals have won their way to eminence in spite of severe educational handicaps, but these are the exceptions. Many countries provide facilities for part-time and further education to meet the needs of those who for some reason have missed the normal opportunities for school and university. Thus at the middle levels of industry there has over the years been a steady improvement in the general educational standard in western countries. It is now not unusual for a foreman to hold a university degree in the United States, or equivalent technical certificates in the United Kingdom. In a less developed country there may be no ready means of providing the necessary educational background for intermediate grades, and the organization itself may have to develop training facilities until the time comes when the deficiency is remedied by general educational progress.

45. The new industrial society also lacks the senior technical adviser of long experience. Even if the ability required for senior management is not so very different as between one industry or corporation and another, it is the marriage between administration and technical ability in the controlling group which is of decisive importance.

III.

Conditions of Employment

46. In discussing training we have not so far dealt with another most important factor in recruitment: conditions of employment offered both to recruits, and to more senior members of the organization. In all government service, there is a tendency to look for career prospects rather than to seek employment on a short-term basis. This is no less important with government corporations than with civil service departments, because both tend to develop working knowledge and skill which cannot readily find a market elsewhere for the government has a monopoly of that type of employment. On the other hand, within government employment, the various departments and corporations must not be allowed to rob one another if staff of the required calibre is in short supply.

47. The terms of employment most obvious to the new recruit are those which are material and immediate, such as rates of pay, holidays, or sick pay. Not less important are those which are material and prospective, such as retirement pension or promotion prospects. There are

also rewards of public service which are intangible, such as prestige, social standing, and, in some countries, titles or honours which are of particular importance in attracting men to posts of senior responsibility. Working conditions and general amenities may also be important in attracting workers, but in a less developed country the choice may only be between agriculture and the public enterprise, not between one industrial career and another.

External and Internal Relativities

48. In determining the conditions of employment in a particular public enterprise, regard must be paid to the conditions offered by other employers, public and private, who are competing for the type of labour required. The internal wage and salary structure of the organization as a whole and the respective responsibilities of the various employees are also important in drawing up a wage policy. Thus, an accountant has to be paid in such a way that he will be attracted to the enterprise, and at the same time his rate of pay should be commensurated internally with his authority and responsibility by comparison with those of engineers, lawyers, purchasing officers, and so on.

Basic Precautions

49. Conditions of service must be suitable to secure an adequate field of candidates. In addition, they must be sufficient to dissuade trained and experienced staff from leaving to go to other industries, give appropriate social status to each class of employee, and discourage dishonesty by adequate remuneration. In any case, members of the lowest grades must live above bare subsistence levels.

50. In a western country a public enterprise is faced with alternatives. If the skill or labour required is plentiful, then it can follow the rates paid by other enterprises. If, however, the skill or labour required tends to be scarce, higher rates must be offered to attract enough candidates. In a less developed country the problem may be entirely different. Agriculture may be the only competitor, and its wages so low that a very modest basic rate of pay will be sufficient to attract industrial labour. Thus the difference between the lowest and the highest rate of pay in a public corporation may be considerably more than the difference in a western country.

51. In western Europe some public industries such as the railways and other transport services have become known as "sheltered" because their staff requirements do not fluctuate with changing economic conditions and the varying demands for their goods or services. In a period of depression, these industries are attractive because they offer permanent and stable employment. In consequence, their wage rates can be rather lower than those for other types of industries - "fluctuating industries" - where conditions of employment are more insecure because economic conditions affect them more immediately. In conditions of full employment, if these "fluctuating industries" can afford to pay higher rates of pay than those generally ruling they enjoy a positive advantage over "sheltered" industries.

Wage Fixing

52. In establishing a new industry it is first necessary to ascertain the rates paid for comparable work or work of similar skill or responsibility by other employers, to offer similar rates to prospective employees, and then to adjust them in the light of experience. The adjustment may not be on a simple, competitive basis; the relativities between one kind of employment and another may be influenced by social ideas; or there may be some over-riding concept of a basic living wage, or of equivalent pay for work regarded as equivalent. Questions also arise whether women should be paid at the same rates as men and whether some kind of family allowance is to be included in wages, or dealt with through taxation or social legislation.

53. There is also the problem of relativities between wage scales in public corporations and in direct government service. As far as possible public enterprises should pay their employees at rates comparable with those paid by government departments, except where the latter offer salary scales seriously below the general standard of comparable employment in the country. In the early stages of their development, it may be necessary to give slightly better treatment in the public enterprises in order to attract personnel into this new field of employment. On the other hand employees on public enterprises which earn profits should have no advantages in wages or other terms of employment over their colleagues in similar organizations less favourably situated.

54. Unless precautions are taken, wage adjustments in governmental enterprises may become involved in political discussion.

55. In France and Sweden, for example, it is assumed that the powers of parliament and the government would be curtailed if they delegated the responsibility for fixing wages and other conditions of service. In Sweden a system of joint consultation has been evolved for the civil service. It resembles normal industrial procedure but leaves the final decision to the government. In France, final decisions are taken by votes in the parliament. The dependence of public enterprises on the Budget has not only brought wage demands of workers in public enterprises into politics, but has made them one of the issues on which governments have fallen. Moreover, strikes of employees in public enterprises are common in France and this can lead to an extremely dangerous situation because every such strike, whatever its nature and extent, is a strike against the government.

56. In Great Britain, by contrast, wage agreements are made through negotiation between the state as employer, represented by the officials of the public enterprise, and the organization's employees, represented through their trade unions. This was not an innovation following nationalization, but was based on the general experience of the civil service and industry over the past century. It depends for its success on the existence of representative and responsible trade unions, on a desire on the part of both management and labour to reach agreements, and on a willingness to compromise, if necessary. In recent years there has been a general tendency to provide independent arbitrators acceptable to

both sides, in case the management and trade unions fail to agree. This helps to keep labour stoppages to a minimum.

The Place of Trade Unions

57. In all countries in which industries have been developed, employees have felt it necessary to combine and to act collectively to protect and further their interests. Managements of new public enterprises are faced with the problem of whether or not to encourage this. In Western Europe and Australia this development is now generally regarded as convenient to management; especially in large-scale industries, as well as giving satisfaction to the employees themselves. For that reason, trade unions have not only been officially recognized in public enterprises, but the workers have to some degree been encouraged by the managements to join their appropriate unions.

58. Trade Unions are necessarily primarily interested in wage-fixing and in conditions of employment, and a constructive approach to these problems tends to develop settled conditions in the industry. Arbitration in wage disputes is impossible without responsible organized representation of the employees, both in seeking a decision and in its subsequent enforcement.

59. Management may influence but it cannot direct the way in which unions develop. A serious problem arises when a number of small unions emerge; it becomes difficult for one union to act responsibly if it has to be continuously alive to the competition of others which seek to attract membership by out-bidding it in demands made on the employers. There may even be a danger that in the early stages of a new industry the differences that divide employees will seem more important than their common aims, and management should pay careful regard to problems of this sort.

The Political Implications of Wage Rates

60. The publicly-owned enterprises are usually so important to the economy of the country, and may employ such a large number of workers that their rates of pay become inevitably an important economic issue. Thus, in the United Kingdom, despite the elaborate machinery constructed to keep settlement of wages out of politics, there have been one or two occasions on which the pay of coal miners and railwaymen has come before the government and when they were, in fact, settled through the intervention of a minister. Intervention of this character may become necessary because a breakdown of negotiations and a suspension of services could not be accepted by a responsible government.

The Effect of Wage Rates on Charges and Subsidies

61. When considering claims for increased pay, the management of a public enterprise must consider the resulting effect on the prices of its goods or services. The management may thus find itself influenced not only by the merits of the claim, but also by the economic effects of meeting it. This problem arises particularly with railways, where traffic is already limited by relatively high fares so that any increased cost from higher wages may result in a decline in receipts.

The Relationship of Trade Unions to Political Parties

62. In a free society a trade union is a voluntary institution which claims the right to freedom within the law. Some trade unions are formed from people professing certain political ideologies. Trade unions of this character cannot restrict themselves to purely industrial activities, so that when the political party to which the trade union movement is affiliated comes to power, there is a special relationship between trade unions and government. There is inevitably a danger that this may be used to further sectional interests, irrespective of general public interest and that of the particular public enterprise concerned.

CHAPTER IV

MANAGERIAL POLICY AND INTERNAL RELATIONSHIPS

I

1. "Man is still the greatest miracle and the greatest problem on this earth." This universal truth applies not only to a broad view of mankind-political, economic, psychological, or spiritual. It is equally significant for management of a productive enterprise.

2. The success of an administrative undertaking depends ultimately on the capacity, the integrity, and the motivation of people. Industrialists and statesmen in many parts of the world are observing more and more the success of a type of management which centres its interest primarily on the human beings through which it operates rather than on the things - materials, facilities, money - which, however essential, are controlled by those human beings. The motivations which are behind human conduct in any society, are decisive factors in the development of the managerial element in that society, and the character of management thus varies from society to society and from country to country. Management itself can be explained and evaluated in terms of its effect on human motivation and productivity. We can satisfactorily examine in this light the various alternatives of functional sub-division, decision-making, communication, delegation, control, and other aspects of management policy.

3. This is based on the theory that good human relations are not an isolated feature of management but are a quality and attitude woven throughout the entire fabric of administration.

Limitations of this Analysis

4. The statements made in this chapter will vary in appropriateness according to the nature of the enterprise, its size, its geographical dispersion, the training and skill of its personnel, its homogeneity of function, and the cultural characteristics of the country. We can only hope to outline general principles, derived from research and from experience, which with necessary adaptations, seem most useful in public industrial undertakings.

5. While the managerial aspect of administration may seem to be somewhat indeterminate by comparison with others, such as the structural, financial, and commercial, it is nonetheless vital to the success of an operation. In fact, the public character of the industrial enterprises under discussion makes the human managerial problem all the more important, because not only the productivity but the public relations and the attitude to customers on the part of employees depend heavily on their responsibility, their interest, and their motivation.

The Will to Work

6. In any organization, and in any culture, the worker must satisfy certain basic emotional needs in order to be productive and attain what is often called "job satisfaction". In the early stages of economic development a spirit of adventure, pride in the achievements of newly won national independence, personal sacrifice for the good of the community, or even a sense of power derived from material achievement, may be the dominant factor in building up this sense of satisfaction. In a more complex society the worker looks for a sense of security, derived from regular wages, from regular employment and a feeling that his work is thereby adequately valued; for a sense of success - the feeling that he is making progress, that he is producing something worthwhile and acceptable and is thus making adequate use of his skill and ability; and a sense of being accepted as a member of the group and of receiving recognition not just for achievement but for his personal worth and significance.

7. Recent social science research in advanced industrial countries shows that the will to work, is best stimulated in an environment of that character by a process of direction by consent, an approach to leadership in conformity with democratic political traditions. Scientific measures of productivity in industrial enterprises in various countries show that the highest productivity is usually secured when the worker sees his objectives clearly and is convinced that they are desirable; accepts the idea that he can achieve these objectives cooperatively; has some choice in the methods used, and is able to see and participate in the final results of the work.

Key Organization Problems

8. The first area in which we can profitably explore the effects of this humanistic concept of management, as opposed to the mechanistic approach, is in matters of organizational arrangement and sub-division of labour. Perhaps a few organizational problems will serve as illustrations.

9. The first problem is that of flexibility. One of the advantages of separate corporate entities for public enterprises is that internal organization and management policies can be left to the inventiveness and adaptation of the individual management of each organization. Freed from the restrictions of central bureaucratic controls, the Tennessee Valley Authority developed one of the most highly motivated and efficient work forces in modern times by experiment and by borrowing what seemed best in the whole range of comparable governmental experience. That this latitude bred success is consistent with the idea that responsible human beings with a definite goal can achieve considerable success when provided with certain guide-lines and when trusted to work out the method for themselves. Even where there are two enterprises of the same type under common governmental authority, there is an advantage in substantial autonomy for each, modified only by general policy guides and clear-cut accountability for results.

10. Next in importance is the problem of size. Public enterprises in the less developed countries are probably smaller in size on the average than those in more advanced industrial communities. Normally this should give them an advantage. A small enterprise can remain closer to its human problems. Greater versatility of staff is required, with resultant greater informality and flexibility in operation. It is much easier to stimulate employee pride, to reach the wellsprings of cooperation and teamwork. The smaller the unit the less excuse has management for poor communication - the mire in which the will to work is so often bogged.

11. A third problem is clarity of objectives. The need for clear understanding by the worker of the direction in which he is working, of how his work fits in with other operations, and of the reasons why it is essential, is a cardinal principle of motivation. A sense of achievement and security can hardly be obtained without it. This applies both to the individual worker and to groups of workers.

12. Devices discussed elsewhere in this chapter help clarify the aims of the work, such as written policy statements, in the preparation of which employees have an opportunity to participate or submit ideas; orientation and refresher training; employee bulletins, staff meetings, and other means of employee communication; as well as clear definition of responsibility, not necessarily showing every detail of how the work is to be performed but explaining what purpose is to be served by each organizational unit and the extent to which it will be held accountable.

13. Another problem is that of functional sub-division and the consequent dangers of overspecialization. No hard and fast rules are desirable for the pattern of functional sub-division within an organization. Although governed largely by logic, functional differences, space, machinery, or other mechanistic considerations, the major breakdowns in work must also be influenced by the skill, training, and versatility of the employees and of the key supervisory personnel available. It is very doubtful whether the high degree of specialization found in some highly developed industrial and governmental units should be duplicated elsewhere. Division of work into narrow segments creates too much separatism, hinders cooperative teamwork, and discourages the liberal shifting of personnel to meet changing workloads, thereby hampering the training and broadening of the experience needed to build up the full potentialities of a working group. The smaller an organization, the greater the dangers of overspecialization.

14. A much discussed organizational problem is the span of control. Attempts have been made to deduce a mathematical formula to determine the number of immediate subordinates or the number of subsidiary functions which can be controlled by a single executive or senior supervising officer. The problem is not capable of a general solution because so much depends on the variety of functions involved. For example, a managing director responsible for coordinating the work of a group which includes more than one technical specialist may find it impossible to deal with more than a small group of heads of departments. On the other hand in a departmental store in the United States actual experiments proved that the manager could successfully deal with a large number of departmental supervisors, in one instance as many as thirty by encouraging them to

deal with much of their work under delegated authority, so that the matters which they brought to him, though important, were sufficiently few in number for his personal attention.

15. If it is impracticable to give the senior a wide span of control, it becomes necessary to introduce one or more intervening layers of supervision, providing him with a number of assistants, each of whom in turn coordinates the work of a group of supervisors in the next layer below. When this type of organization becomes necessary, the choice of functions which go direct to the chief executive becomes important. In addition to the main productive activity or the main service given by the enterprise, he should, for example, give some personal attention to such important problems as budget or personnel, and the hierarchy must be so arranged that these matters come within his immediate direction. The opposite arrangement, whereby a large group of supervisors report direct to a manager in charge gives great scope for their individual initiative since the manager has little opportunity to give any one of them a great deal of his time. This situation makes careful selection of supervisors extremely important, and it also tends to produce men of initiative who subsequently make good candidates for higher management.

16. In any type of organization the critical element is of course the capacity and skill of the supervisors. Devolution of authority has a considerable value; often personal capacity is not discovered until it is given an opportunity.

17. When the organization is nation-wide and is not centred in a single factory or plant, individual management is out of the question. Indeed a controlling group cannot give more than general supervision. In Turkey, for example, a country with considerable similarity to those of the ECAFE region, the headquarters of the Highway Department had to be divided into four major functions; planning, design, construction and maintenance, with auxiliary technical departments dealing with research, supplies and traffic operation, and common service departments responsible for finance, and accounts, legal work, personnel management and records. The executive work of construction, which could not be concentrated at Ankara, has been divided between nine regions, each under the control of a field engineer with wide delegated powers; and there is a further delegation to the provincial authorities of executive responsibility for local roads.

18. The auxiliary staff services are of considerable importance in the smooth running of headquarters and are broadly of two types:

(i) Operations which run horizontally throughout the organization and require central leadership and direction, such as personnel practices, public information, legal interpretation, budgeting and financial control, provision of supplies or materials, maintenance of buildings and equipment, and the like;

(ii) Services in the immediate office of the principal executive designed to conserve his time - reducing by preliminary discussion the number of complexity of issues that must be put before him; clarifying misunderstandings where possible; explaining the executive's decisions where these must be repeated to various groups; collecting information, digesting reports and data, to

facilitate executive decision; drafting decisions or policies for executive review; screening visitors and correspondence, shifting as many matters as possible to other parts of the organization.

19. The need in large organizations for special auxiliary units concerned with the managerial services of personnel, public information, legal analysis, budget and finance, purchasing, and housekeeping has long been recognized. In organizations of less than 1000 employees these can often be combined into one or two units. They not only serve and advise the executive; they can act for him where he delegates authority.

20. The second category of auxiliary services, which can best be provided through personal staff assistants and secretarial staff, is equally vital to allow the executive to devote his time to general policy.

II

Decision-making: A Process of Communication and Delegation

21. Much of what has been said already touches upon the elements of decision-making. Before effective action is achieved it must be decided what is to be done, how it is to be done, and who is going to see that it is done. If the organization is so small that control is vested in a single individual he will have no difficulty in disposing of all three problems. Once these responsibilities have to be divided between more than one person, even if one individual is in ultimate charge, there at once arises a problem of communication, and the efficiency of the organization is then determined by the efficiency of its communications. It should always be remembered that a good organization is oriented in terms of persons so that the making of decision is primarily a process engaged in by people, affecting people, and influenced by the attitudes of people. Decisions must be based on the information received at the point where they are made, so that they are critically dependent upon the channels of communication and staff participation. The quality of decisions is also dependent on the capacity of those who have to take them and on the reliance placed upon these individuals by superior authority. The problem arises more with executive management than with the formulation of policy. In the nationalized industries of the United Kingdom, for instance, formulation of policy is frequently in the hands of boards, whereas executive management is entrusted as far as possible to individuals such as the Area General Managers of the Coal Board or the District Managers of the Gas and Electricity Boards.

22. Communications and employee participation are of vital importance in reaching decisions. If we consider the basic reasons for the motivation of employees, we quickly realize that executives cannot afford to make decisions in an ivory tower, insulated from the knowledge, the feelings, and the aspirations of their subordinates. Technical decisions must, of course, be made on the basis of technical information and the professional judgment of specialists;but decisions become less and less technical and more and more far-reaching as they reach higher and higher in the hierarchy. The more far-reaching they are, the more the human factor must be taken into account.

23. Many management experts refer to employee participation as if it were confined to those administrative problems which relate to personnel policies such as working conditions, pay, or supervisory practices. If we are to interpret decision-making from the humanistic point of view, we must regard employee participation as a regular method of work in all the daily decisions of an organization. The following are some of the means of achieving it:

(i) Staff meetings should be regular and frequent. Supervisors should not be afraid of having too many discussions with employees. Even a foreman of an unskilled labour force, although he might find group meetings impractical, should encourage employees to express opinions on working methods.
(ii) Wherever possible, each supervisor should try to lead his unit to a group decision on any matter which affects general work policy or standards, rather than reserve this prerogative to himself.
(iii) Employee suggestions for work improvement should be stimulated up and down the line. Management should praise supervisors who elicit employee ideas.
(iv) Employees should be asked individually to help estimate what their individual production goals should be.
(v) The head of the organization should hold mass meetings of employees several times a year, out-of-doors if necessary, wherever the work arrangements permit.
(vi) If at all possible, an employee newspaper or bulletin should be published regularly, containing current information about the goals and success of the enterprise and matter of human interest concerning individual employees.
(vii) Serious group problems of discipline, laxity, malingering, or the like should be discussed frankly and openly with the groups of employees affected, in an attempt to obtain their solution of the difficulty.

24. If such practices as these become a natural and habitual part of the working environment, they would go a long way toward providing both top management and rank-and-file employees with an understanding of working aims and of each other's problems and feelings, and toward satisfying the workers' emotional needs for sympathetic identification with the aims of the organization.

25. Employee organizations and trade unions also serve a constructive purpose because:

(i) they provide a convenient means of assessing employee group opinion on personnel policy and of negotiating with employees;
(ii) they provide a vehicle, set up by the employees from which representation can be secured on labour-management committees such as the Whitley Councils in the United Kingdom, the Works Councils in Germany, and similar instruments in the public enterprises of other countries.

26. In the trade union, workers who may have little opportunity for advancement in the corporation or enterprise itself, have a chance of

leadership, identification with the purposes of their group, and a sense of social satisfaction that cannot perhaps be afforded to them otherwise within the enterprise.

27. Delegation of authority also assists in the making of decisions. Authority may be delegated down the line, following the functional hierarchy and the layers of supervision within a given location, and it may be delegated to executives in charge of units at other locations. The latter process is often referred to as decentralization. Delegation and decentralization refer essentially to the same method - a fanning out of decision-making so that employees at various levels in the organization can take action without awaiting prior approval by their superiors.

28. In a study of the nationalized coal industry of the United Kingdom this statement has been made: "decentralization is not simply an aim which can be achieved by organizational changes, but is primarily a problem of the adjustment of human relationships". This suggests that the advantages of maximum delegation of authority to act are achieved (i) by improving the efficiency and speed of action of individuals within an enterprise; and (ii) by motivating those who are given authority to take a genuine interest in and responsibility for their work.

29. The human element is the primary consideration, as well as the limiting factor in delegation. Delegation can go only so far as an employee is equipped to exercise the judgment that is required. This presupposes: (i) the necessary personal knowledge and capacity; (ii) training in the aims and policies of the enterprise; (iii) definite standards, defined in writing wherever possible, by which the employee makes the decisions. The success of training and the setting of standards in obtaining greater efficiency through delegation of authority illustrates how such activities pay for themselves.

30. In any event, delegation should go as far as human conditions and relationships will permit. In the enterprises of every country of the world there is all too often a failure to give adequate responsibility to individuals and to make full use of the human resources already in the organization.

Other Problems of Supervision

31. The importance of good supervision is implicit in all that has been said. But there are some significant aspects of supervision and human relations yet to be emphasized.

32. One of the vital concerns of management is how it selects and develops those who are expected to lead others. Studies and experience in the highly industrialized countries suggest:

(i) Productive supervision requires a person with emotional maturity and stability, and a fundamental respect for the dignity and worth of human personality. He must have an interest in working through other people.
(ii) Supervisors should not be selected on the basis of their technical ability alone or their productivity as individuals. If super-

vision is an important requirement of the job to be filled, then the successful candidate should possess the qualities necessary to good supervision.

(iii) Various kinds of aptitude tests have been found useful in weeding out employees who are not intellectually or emotionally suited for supervisory work, but they are only one factor in selection.

(iv) Classroom training in supervision can improve a supervisor's organization of work in his unit and his intellectual appreciation of the foundations of good human relations, but it is not likely to change his behaviour if he is failing through his own emotional shortcomings.

33. The motives which lead an employee to do his best work are highly individualized. They vary with the nature of the organization, the attitudes of other employees, the period in the organization's history, and the stage in an employee's career. Any form of recognition of an individual for unusual effort must be handled in such a way that cooperation among workers is not jeopardized.

34. For these and other reasons, the transplanting from one country to another of systems of awards and rewards, both cash and honorary, which have been found successful, must be approached with caution.

35. Success in the use of special awards and recognition of individual merit is more dependent on the qualities of supervision and leadership than on any other condition. Here again, a consciousness of human needs and feelings is the most important consideration.

36. Senior management in any enterprise must not only motivate its workers but must assure itself that operations are being carried out in accordance with established policy. This is less of a problem where morale is high, but even under the best conditions there must be well defined methods of inspection.

37. Where standards and policies have been clearly defined with employee participation, management has a sound basis for the inspection of results. Where it has delegated authority commensurate with individual responsibility and capacity, it can properly inspect production and performance through periodic reports, surveys by staff specialists, statistical controls, fiscal accounting records, and even periodic interviews with key employees and supervisors. Employees up and down the line will welcome inspection procedure and will be accountable when they have been trusted with responsibility which they can understand, when they have something to say about how the work is to be performed, when they are commended for good work, and when they feel that management is interested in their welfare.

Conclusion

38. This has not been an exhaustive treatment of all the problems and issues of managerial policy and relationships. It endeavours primarily to suggest that an enterprise is most successful when its leadership is thoroughly conscious that its principal means of operation is through

human beings and that each of these persons has a will of his own and is entitled to respect for the worth of his individual personality. Testing every management decision and method against this criterion is, in the long run, the simplest approach to enlisting the enthusiasm and cooperation of a working force.

CHAPTER V

PUBLIC UNDERSTANDING

I.

The Nature of Public Accountability

1. It is widely accepted that public enterprises, because they are publicly owned and in greater or lesser degree monopolistic,have a special obligation to seek public understanding and cooperation. The foundation of such understanding, however, is the principle of "public accountability", which must be established independently and enforced by law.

2. This principle means that the public must have the final word in the control of the industries it owns. In practice, the legislature, as a body of elected representatives of the public, will make the major decisions about the industries, while the executive part of the government will probably exercise such supervision as may be necessary in their planning and current operation. Other functions may also be delegated, but in the last resort the industries will be responsible to the legislature and render account to it of their activities. The central feature of public accountability is often therefore described as parliamentary control.

3. The nature of the organizations operating the industries and their relations with the executive have already been discussed. A further word is necessary about the role of the legislature. The methods by which accountability to the legislature is secured will depend on the constitutional forms of the countries concerned. It is probably generally desirable that the legislature should not attempt too close a control; in particular that it should not normally interfere in the day-to-day running of the industries, but confine itself to questions of major policy and exceptional importance. Detailed interference will lead to delays, overcaution and lack of confidence on the part of those running the industries.

4. Ultimate parliamentary control is essential, but it does not follow from this, any more than it follows from public ownership itself, that public understanding is assured. It is inevitable that political ideology and social sentiment will play an important part in the approach to public enterprise in every country. The experience of western countries shows that enthusiasm for public enterprise must not be allowed to obscure the hard core of practical problems which remain whether the enterprise is private, public or mixed. Public enterprise does not by itself solve the problems of economic efficiency, of price policy, of labour relations, of management of personnel, and in a country new to these problems it would be wise for the government to endeavour to educate the public in these matters in order to avoid many disappointments.

Defining the Public Interest

5. Public ownership means, and parliamentary control is designed to ensure, that the industries should be operated in the public interest. The first problem is to define the public interest. In the United Kingdom it is evident that even the governing boards of corporations in the same group of industries have made different interpretations of what the public expects of them. This becomes more understandable when it is seen that the public interest is almost impossible to define in general terms and extremely hard to describe in individual cases.

Long-term and Short-term Interests

6. There may be conflict between long-term and short-term interests: for example, between building up the capital resources of the industry and producting goods quickly. A second conflict may often coincide with this one: the conflict between the national economic interest and the consumers' immediate needs - or between people's interest as owners of the industry and their interest as consumers of its products. Similarly, national and local interests may conflict.

Different Consumers

7. Perhaps even more complex are the divergences of interest that arise between consumers of different industries and between different classes of consumers of the same industry. The British public is served by three public fuel and power industries - coal, electricity and gas - but the resources available for the development of the three are not sufficient to enable each of them to satisfy their consumers to the extent that the industries and their consumers would like.

8. Further, each industry will have different kinds of consumers. The interests of industrial consumers of transport will certainly be different from those of passengers; circumstances may arise in which the two conflict, if it is not possible to provide facilities for both. Price schemes in electricity supply may not satisfy both commercial and domestic consumers; if the rates for one group are reduced the other may have to pay more. There is no objective way of measuring these different needs and no certain way of deciding which shall have priority.

Consumer Interests and Workers Interests

9. Another conflict is that which may arise between workers and consumers, and which can be summed up in the question, "higher wages or lower prices?". The fact that the workers are often at the same time both consumers and owners of the industry does not appear to lessen the difficulty.

10. Finally, it is generally inevitable that schemes of public enterprise will raise hopes which cannot all be fulfilled. Goods must be paid for, whoever produces them, and the price will always seem too high to someone. Furthermore, the public tends to feel particular disappointments more keenly than it appreciates general achievements, and in large-scale organizations mistakes and anomalies inevitably occur. To this extent there will always be public criticism which will have to be met.

The Need for Information

11. In short, there is no firm once-for-all answer to these problems. The "real" public interest can never be determined with certainty. But the obligations which this imposes on public enterprises can be stated in more practical terms. They amount to securing a degree of mutual confidence: the public must know what the industries are doing and the industries must know what the public wants, and react accordingly. At least, the fact of public ownership implies that the industry must try to achieve this difficult objective. It follows that the industries must provide information about their affairs and obtain information about public opinion.

II.

Information from the Industry to the Public: Reports to the Legislature

12. The industries will be required by law to render account, at stated intervals and normally each year, to the legislature or to the ministers of the central government. This will take the form of a financial statement of accounts, showing the capital balance and the profit or loss on operations, and of written reports describing the plans, policies, problems and achievements of the industries. The annual report should be written in a simple and straight forward manner as it is the basic channel for providing information and will be available to the public in published form. The value of annual reports varies considerably between one country and another. Sometimes they are too scanty to serve a useful purpose to the public, sometimes they are so voluminous and detailed that important features become obscured. The report of the British European Airways Corporation and the TVA document "The Use of the Earth for the Good of Man" may be cited as a good example of imaginative presentation.

Publications

13. Most public industries find it necessary from time to time to publish descriptions of their work and policies, broadly for three groups (i) for the information of their own employees, if the organization is a large one; (ii) for the benefit of outside technicians and research workers (such publications are of a specialist nature and form part of a general exchange of technical information, a process common to almost all industry and essential to technical progress); (iii) for the general public.

Information to the Press

14. All industries, public or private, pay particular attention to the press and broadcasting organizations, which can influence a much wider section of the public than the industry itself can. Most industries issue regular data to the press, but it is probably more important to provide information on demand, to grant facilities for attendance and enquiry on important occasions or at development projects of special interest, and to provide advance information of new plans. The press itself has a most important role to play, both in keeping the public informed and in bringing public criticism to the notice of the corporations. A vigorous, courageous and vigilant press is of primary importance in the development of public confidence in state enterprises.

Information on Demand

15. It is essential that enquiries from the general public, whether by letter or otherwise, be answered speedily and courteously. Similarly, it is desirable that specialist enquiries from research bodies or universities should be met wherever possible.

Advertising

16. A public enterprise may well need to advertise in the same way as private commercial organizations - if only to inform the public of the goods or services it can offer. It is doubtful, however, if competitive advertising by various public corporations (vis-à-vis each other) is desirable. On economic grounds it is not easily justified, and experience shows that the public may resent it. Much the same is true of "prestige" advertising, if too blatantly pursued. The emphasis should be on information.

Other Methods

17. There are many other methods of telling the public what is going on in an industry. A great variety of visual forms of publicity may be employed: for example photographs, film-strips and films about its activities can be distributed by the industry either generally through normal commercial means or to those sections of the community most closely interested. The industry can take part in exhibitions, permanent or temporary. It can invite members of the public to visit its works and sites and arrange for members of its own staff to give lectures to schools and other institutions. Where the cooperation of a section of the public is especially sought, for the furtherance of the industry's own work, the use of experimental and demonstration plants is a well-tried method.

III.

From the Public to the Industry: Information and Complaints

18. The flow of information to the public may be wasted unless there is also a flow the other way: from the public to the industry. This is more difficult to achieve, and the industry will need to make special efforts. Some information will come in the normal course of business from those employees in contact with the public. If the industry is engaged in commercial distribution, the managers and employees will pass back a good deal of information about public demand for the goods or services and about the dissatisfactions and wants of their consumers.

19. Many public industries study the press as an indicator of public reaction, and provide a press cuttings service for their managers, though the reliability of such indications must naturally vary widely. Particular attention will, of course, be paid to representations from members of parliament and members of provincial and local governments. The volume of complaints addressed to the industry by consumers will also provide an indication of public opinion; but neither this, nor the casual encounters of the staff with the public, prove a reliable guide. More systematic methods are needed.

Consumer Research

20. Market research and audience research have long been used by commercial firms selling consumer goods and by broadcasting organizations.

There is no reason why the same methods should not be used by public industries. Statistical sampling surveys can provide accurate assessment of the public's opinions, tastes, of the extent of its use of an industry's products and of the demand for goods and services. Care must be taken to ensure that results in terms of numerical majorities do not lead to neglect of the factor of intensity - the strength in which opinions are held or demands felt by those in the minority. A variety of other research techniques, with or without statistical analysis, are available. Consumer research may be essential for new enterprises where such basic facts as location of plant, potential and actual demand, have to be determined.

Advisory Committees

21. The industry can usually consult such organized bodies of consumers and business as exist - Chambers of Commerce, trade associations and so on. It may also find it useful to appoint advisory committees, representing its consumers or sections of the public likely to be affected by its activities. It may invite as members of such committees either persons of specialist knowledge or persons known to be in touch with public opinion. In either event they will constitute a permanent body of advisers which the industry can consult in preparing its plans or assessing their effects.

IV

The Consumer as a Governing Director

22. In France a certain number of representatives of the consumers of the goods or services provided by a publicly-owned industry are appointed to the industry's governing board. Experience of direct participation of consumer prepresentatives in management has not so far been encouraging, and the appointment of consumers on the Boards does not eliminate the need for special arrangements to be made within the organization to secure the cooperation of the public in day-to-day business.

The Public Relations Department

23. Most of the functions already mentioned fall under the descriptive title of public relations, although there is no generally accepted pattern of organizing this kind of work. The extent to which public relations departments should be developed must depend largely upon the size of the organization and the return which money so expended will produce for the organization. Differences between and within industries will impose variations and demand flexibility in organization. Some industries in the United Kingdom group all the functions under a Public Relations Officer, while others distribute them between one or more departments.

24. The persons in charge of public relations or information services should be persons of responsibility and authority within the organization. Their status within the industry will help to determine the degree to which they have the confidence of the management and to which they are able to gain that of the public. They should be provided with all possible information on questions of major policy and therefore should probably attend management meetings at a high level. Although certain of these functions demand specialist knowledge and experience, it is important that the public relations department should not become too large in re-

lation to its duties and to the size of the industry; it should not usurp any of the normal functions of management.

Specialist Staffs

25. Many public corporations have found it necessary to appoint as Press Officer a person with newspaper experience (this is more necessary since the press office has come to be an essential part of all large-scale corporations). The more specialized the other publicity material produced by the corporations the more necessary it is to have specialist staffs. Statistical, photographic, design and display sections may be required - though they will probably have functions to perform within the industry in addition to projecting it to the public. If consumer research is undertaken, trained and qualified persons are certainly required. Many public enterprises employ a small staff - usually within the public relations department - to deal with enquiries and complaints from consumers and the public. Some industries appoint officials solely for duties of liaison with other institutions, such as organized bodies of consumers and other industries.

Industrial Morale and Public Relations

26. Staff morale within an industry has a close relationship to the problem of public understanding. The degree of courtesy and helpfulness which employees display in their dealings with the public is an extremely powerful factor in determining public estimation of the industry. But the general bearing of employees and their willingness to help the public will be affected by the state of morale within the industry. Conversely, the opinion which is held of the industry by the public will have some effect on the employees' morale at work; they will be more likely to feel pride in their work if the industry is respected by the public.

27. This points to a duty of public relations officer and of all managers: to make their employees "public relations conscious". Some industries set aside part of their staff training courses for this purpose. For employees of public industries need to know something of the wider significance and special responsibilities of the industry in which they work.

Courtesy in Dealing with the Public

28. The public will receive impressions of the industry in many ways. For example, if buildings used by the public are well-designed and kept clean, and provided with clear and conspicuous notices giving directions to the various departments, a favourable impression will be made. Members of the public visiting the industry's premises should be received with courtesy; they should not be shunted from one department to another. Telephone and written enquiries should be handled with the same consideration. It is particularly important that letters sent to members of the public by employees of the industry should be written in a friendly manner and in simple ordinary language. In short, all officials of the industry must remember that they are the servants of the public, and should treat the public with all possible consideration.

Local Public Relations

29. No public relations policy can be successful if it is confined to the headquarters of the organization. Delegation of functions is perhaps more important in public relations than in other departments. The lack of it - that is, undue centralization - quickly makes itself known to mem-

bers of the public, who discover that they have to wait for their enquiries and complaints to be referred to headquarters and that they can never get an answer from their local representative or manager. Moreover, such a state of affairs means that the centralization of the information services is acting as a centralizing factor on the whole organization by limiting the initiative of local managers.

30. However, the answer to this problem may not be decentralization of the public relations department, since it may be uneconomic to duplicate the headquarters' offices at lower levels. Public relations functions "on the spot" - in provinces, regions or in small communities - must be the job of divisional or local managers. This implies, first, that these people should have authority to conduct business with the public without having to seek sanction from above; and, secondly, that the public relations officials at the centre should encourage local managers to seek public cooperation, and should provide these managers with continuing advice and assistance in doing this.

31. It was to foster this kind of relationship, which Americans call "grass roots democracy", that special efforts were made in the United States in the New Deal period to provide direct representation of consumers in the planning and operation of public enterprises. This did not go so far as to provide elements of control to consumers, but it did, for the first time, organize consumers and make their collective wishes articulate. In Great Britain consumer representation has been embodied in the statutes establishing public corporations.

Consumer Councils

32. The managers of public industry, holding a monopoly position, will be strongly placed in relation to consumers; the workers of the industry may also be powerfully organized to press their views through their trade unions. There is, therefore, a need for an effective organization to represent the views of consumers. This is especially true of domestic consumers (industrial consumers are normally in a stronger position). It may not be sufficient to rely on the industries themselves to give a hearing to consumers; that is why in the United Kingdom consumer councils were established by statute.

33. These councils represent both industrial and domestic consumers and most of them are organized on a regional and local basis (they include representatives of the local governments). They are financed by the industries but in other respects are independent; and their members are unpaid. They have restricted power; they obtain information from the industries, bring the opinions and complaints of consumers to the notice of the industries and give advice both to the industries and appropriate minister of the central government. They have no authority to enforce their views on the industry but may appeal to the minister, who has the power to compel the industry to follow the council's advice.

34. In the United Kingdom the councils have not so far been very successful. Nevertheless certain lessons can be drawn from their experience, and these can be summed up as follows:

(i) If there are too many councils the public will be confused. If more than one industry is involved it may be better to group the

industries together for this purpose than to have a multiplicy of separate councils;

(ii) The councils must be made known to the public; that is, adequate funds must be available to give publicity to their existence and activities;

(iii) They must be independent, financially and in all other respects, of the industries concerned;

(iv) They must receive encouragement and support from the ministers of the central government;

(v) The industries must seek the councils advice on their plans and policies before reaching decisions on them.

Assessment of Efficiency

35. Perhaps the most crucial problem of all in the control of a public enterprise is the evaluation of its performance. To put the question in its simplest form, how are the legislature and the public to know if the industries are running efficiently?

36. There are two general problems:

(i) What persons or organizations are best suited to enquire into the efficiency of public industry;

(ii) What techniques are available to determine the degree of efficient working.

Parliamentary Committees

37. The primary organization is the legislature, which will receive information about the industries and debate it. But parliamentary debate is not a sufficiently close enquiry for many of the technical questions with which public enterprises are generally concerned. The legislature may therefore need to appoint special committees of its members to enquire more thoroughly. Such committees may already exist, to deal with other public services. Thus, the Public Accounts Committee of the United Kingdom Parliament has examined accounts of nationalized industries. It is probable, however, that these committees are either too busy or unsuited to examine problems of industrial management. Hence there may be need for a special permanent committee for public industry with persons of expert knowledge to assist its members. A proposal on these lines is now being considered in the United Kingdom.

Other Committees and Tribunals

38. Similar bodies may be appointed outside the legislature. These may be permanent and have particular duties to perform (like the Transport Tribunal in the United Kingdom and the Rates Tribunal in India, which in fixing the level of charges try to assess the efficiency of the nationalized transport industry); or they may be appointed from time to time for a particular task. One possibility is to hold an exhaustive enquiry into each industry by an impartial body at intervals of several years. Consumer councils might also provide continuous or periodic checks on how the industry is managed.

39. The accounts of French public industries are audited by a body known as the "Commission de Verification des Comptes des Enterprises Publiques" which reports to the cabinet and the legislature. This body does not confine its activities to purely financial audits, but examines the structure, working and production of the industries.

Criteria of Efficiency in Public Industry

40. Private industry is assessed by the public according to the price and quality of its products, and the public expresses judgment by buying or not buying those products. The final judgment on the firm's efficiency is made when it faces its shareholders and shows its profit and loss account.

41. The test of profit often cannot be fairly applied to public industry. The industry may be subject to controls by the central government which prevent it from selling at a price which is economic or will cover its costs. Its projects may be long term, inevitably showing a loss initially; indeed the projects may well be undertaken by public rather than private industry for just this reason. Thus the basic criteria of selling price and profit or loss may have comparatively little relevance to the efficiency with which a public industry is run.

Annual Accounts

42. For the reasons outlined above the annual accounts may provide only a very imperfect guide to the efficiency of a public enterprise. They may reveal gross inefficiency if grave financial losses are sustained in an industry which by all reasonable expectations should be self-supporting or nearly so. When there is no dramatic situation of that sort, however, the accounts are of only limited value. For example, revenue may be sufficient to cover costs, but the costs may still be too high if the industry is producing a small output of goods in great demand and is able to charge high prices for them. In such circumstances the public will be entitled to ask if the price could not be reduced by more efficient methods of production: that is, through greater output, lower average cost and smaller profit margins. This sort of question cannot be answered without a more detailed examination of the industry's internal operations and other techniques of measuring efficiency.

Indices of Cost, Output, and so on

43. For the purposes of internal management, a publicly-owned enterprise will generally develop measurements of the cost of producing unit quantities of goods or services. These costs need not be measured in terms of money; in fact, if they are, they may reflect extraneous factors such as changes in the value of money and increases in price, or taxation, of raw materials. They can be expressed in terms of other resources such as manpower (output per man-hour). Thus in coal mining the average quantity of coal produced per man day can be calculated. Railways can show the average load carried per wagon; airways, the average number of passengers carried per aircraft or per employee.

44. Naturally the human side of industry (the morale of employees, for instance) is least easily measured by statistical techniques, but it can to some extent be reflected by statistics. Collectively, statistics on absenteeism, the number of accidents, the turnover of manpower, and the number of industrial disputes will be a guide to the success of management in gaining the cooperation of employees.

45. It is very desirable that all these indices and statistics are available to the public, and their regular inclusion in annual reports should be encouraged. For some industries such information can be published at shorter intervals - even monthly or weekly.

Need for Comparisons

46. When publicly-owned industry publishes details of its performance in the way suggested in the previous section, it may become possible to use the results for purposes of comparison. There is generally no absolute standard of efficiency with which comparisons can be made. The following comparisons can, however, be of value..

(i) With other organizations charged with similar responsibilities in other countries: This is not always possible, and differing circumstances in the countries concerned may invalidate to some extent the conclusions drawn;

(ii) Between different units in the same organization:
A publicly-owned industry may have a number of plants producing the same goods, or, at a higher level, it may be organized in regions. Comparisons of results between plant and plant, and between region and region can then be made although in both cases extraneous factors affecting efficiency may vary, and may have to be discounted;

(iii) With the results achieved by the organization during previous years: This is perhaps the most reliable guide, and if performance appears to improve regularly and steadily over a number of years, it may reasonably be assumed that the organization is reaching a reasonable standard of efficiency.

Conclusion

47. The evaluation of the work of public industries remains a complex matter of judgment, involving the balancing of many factors. The best advice that can perhaps be given at the present time is to make sure that those charged with responsibility for running each industry devise as many measurements of work performance, unit costs, and so on, as possible, and that the results produced are made public regularly and as frequently as possible. In this way the legislature, the executive, the press and the politically alert sections of the public will have the maximum amount of information on which to form judgments, and on which to develop searching and health criticism of those in charge of the enterprise. Information is not available about the present position in each of the countries in the ECAFE region. In Burma a variety of methods are employed both to foster public understanding of the operation of public enterprises and to obtain the views and criticisms of the public.

BIBLIOGRAPHY

SECTION I: MONOGRAPHS AND UNITED NATIONS DOCUMENTS

I. General Works

Арахелъян, А. Управление социалистической промышленностью. Москва, 1947 г.

Armengaud, André. Vingt ans de capitalisme d'état. Paris, 1951.

Austria. Österreichs Grundindustrie verstaatlicht. Vienna, 1951.

Бардин, И.П. и Банный, Н.П. Черная металлургия в новой пятилетке. Москва, 1947 г.

Brilland, M. La nationalisation des industries. Paris, 1945.

Carnot, R. L'étatisme industriel. Paris, Payot, 1920.

Chenot, Bernard. Organisme économique de l'état. Paris, Dalloz, 1951.

Clegg, Hugh and Chester, T.E. The future of nationalization. Oxford, Blackwell, 1953.

Clemens, E.W. Economics and public utilities. New York, Appleton-Century-Crofts, 1950.

Davies, Ernest. National enterprise: The development of the public corporation. London, Gollancz, 1946.

Dobb, M. Soviet economic development since 1917. London, Routledge and Kegan Paul, 1948.

Drago, Roland. La crise de la notion d'établissement public. Paris, Pedone, 1950.

Farkas, V. Ekonomika industrije FNRJ (The industrial economy of the FPRY). Zagreb, 1951.

Friedman, W. The public corporation in the law and life of the nations. Toronto, 1954.

Gendarme, René. L'expérience française de la nationalisation industrielle et ses enseignements économiques. Paris 1950.

Gordon, Lincoln. The public corporation in Great Britain. London, 1938.

Gouldner, Alvin W. Patterns of industrial bureaucracy. Glencoe, Ill., 1954.

Horn, Jules A. Essai de théorie générale sur l'entreprise publique. Brussels, 1951.

Industrial Development Corporation of South Africa: General information brochure. Johannesburg, 1952.

Jasny, N. The Soviet economy during the Plan era. Palo Alto, Stanford University Press, 1951.

Julliot de la Morandière, L., and Bye, Maurice (editors). Les nationalisations en France et à l'étranger: les nationalisations en France. Paris, 1948.

Lavergne, Bernard. Le problème des nationalisations. Paris, 1946.
Lewis, Ben. W. British planning and nationalization. New York, Twentieth Century Fund, 1952.
Lilienthal, David. TVA - Democracy on the march. New York, Harper, 1944.
Longhurst, John. Nationalization in practice, the civil aviation experiment. London, 1950.
Neuman, A.M. de. The economic aspects of nationalization in Great Britain. Cambridge, 1952.
Persons, W. M. Government experimentation in business. New York, Wiley, 1934.
Петросьян, К.А. Советский метод индустриализации. Москва, 1951 г.
Планы развития народного хозяйства стран народной демократии; сборник материалов. Москва, 1952 г.
Pritchett, C. Herman. The Tennessee Valley Authority. Chapel Hill, North Carolina, University of North Carolina Press, 1944.
Robson, W. A. Problems of nationalized industry. London, Allen and Unwin, 1952.
Robson, W. A. Public enterprise. London, 1937.
Schwartz, H. Russia's Soviet economy. New York, 1950
Смехов, Г. Социалистическая индустрия СССР на новом мощном подъеме. Москва, 1951 г.
Ventenant, M. L'expérience des nationalisations. Paris, 1948.
Verhulst, M. Les industries d'utilité publique. Paris, Presses universitaires de France, 1952.

II. Types of Organization Suitable For Public Enterprises

Acton Society Trust. Patterns of organization. London, Acton Society Trust.
Arena, Andrea. Le società commerciali pubbliche. Milan, 1942.
Aubert, J. B. Les sociétés d'économie mixte. Paris, 1937.
Baykov, A. Development of the Soviet economic system. New York, 1946.
Bergson, A. and others. Soviet economic growth: conditions and perspectives. Evanston, Illinois; Row, Peterson and Co., 1953.
Dimock, M. E. Government-operated enterprises in the Panama Canal Zone. Chicago, University of Chicago Press, 1934.
Goodman, Edward. Forms of public control and ownership. London, Christophers, 1951.
Горностай-Польский, А.М. Основы экономики кожевенно-обувной промышленности. Москва, 1947 г.
Jacomet, R. and Buttgenbach, M. Le statut des entreprises publiques: offices à caractère industriel et commercial; sociétés d'économie mixte; entreprises nationalisées. Paris, Sirey, 1947.
Хромов, П.А. Очерки экономики текстильной промышленности СССР. Москва, 1946 г.

Self, Sir Henry, and Watson, Elizabeth M. Electricity supply in Great Britain. London, Allen and Unwin, 1952.

Thurston, S. Government proprietory corporations in the English speaking countries. Harvard University Press, 1938.

Townshend-Rose, H. The British coal industry. London, Allen and Unwin, 1951.

Tricot. Les entreprises d'intérêt général à caractère semi-public. Paris, 1943.

United Kingdom: Report of the Broadcasting Committee 1949 (Chairman Rt. Hon. the Lord Beveridge) Cmd. 8116. London, H. M. Stationery Office, 1950.

III. Organizational Relationships and Controls

Acton Society Trust. (i) Accountability to parliament; and (ii) The powers of the minister. London, Acton Society Trust.

Ardant, Gabriel. Technique de l'état; de la productivité du secteur public. Paris, Presses universitaires de France, 1953.

Blacvock, C. Les services industriels ou commerciaux et les responsabilités qui en découlent. Paris, 1946.

Buttgenbach, André. Théorie générale des modes de gestion des services publics en Belgique. Brussels, Larcier, 1952.

Castro, Juan F. Ferrocarriles argentinos; significado de la nacionalización de los ferrocarriles. University of Tucumán, Argentina.

Chavanon, Christian. Essai sur la nation et le régime juridique du service public industriel et commercial. Paris, 1939.

Chester, D. N. The nationalized industries, a statutory analysis. London, Institute of Public Administration, 1951.

Clemson, L.G.W. Accounting in industrial management. Sydney, Butterworth, 1951.

Coase, R.H. British broadcasting, a study in monopoly. London,1950.

Davies, Ernest. The state and the railways, London, Gollancz,1940.

France: Recueil des lois et règlements intéressant la nationalisation et les services nationaux et de distribution de l'électricité et du gaz. Paris, 1950.

Goldberg, Sidney D. and Seidman, Harold. The government corporation: elements of a model charter. Chicago, Public Administration Service, 1953.

Granick, D. Management of the industrial firm in the U.S.S.R. New York, Columbia University Press, 1954.

Guinard, J. Le contrôle exercé par l'état sur les sociétés dont il est actionnaire. Paris, 1942.

Guionin, E. Quelques aspects du capitalisme d'état: les avances à taux réduit. Paris, Rousseau, 1935.

Jevtić, B. Proizvodno-finansiski plan industriskog preduzeća. (The production financial plan of the industrial enterprise) Belgrade, 1950.

Kaplan, N. Capital investments in the Soviet Union. Santa Monica, The RAND Corporation, 1951.

Конторович, В. Техпромфинплан промышленного предприятия. Москва, 1948 г.

Lewis, A.W. Overhead costs. London, 1949.
Lewis, W. Arthur. The principles of economic planning. London,1949.
Moreau, J. Le régime financier des services industriels de l'état en France. Paris, Librairie technique et économique, 1938.
Rivero, J. Le régime des nationalisations. Paris, Edit. Techniques, 1949.
Sigalas, A. de. Le statut des entreprises gouvernementales en U.R.S.S. Paris, 1936.
United Kingdom: Select Committee on Nationalised Industries: Report. H. M. Stationery Office, 1953.
Вейцман, Н. Анализ хозяйственных показателей предприятия. Москва, 1943 г.

IV. Problems of Personnel Management

Acton Society Trust: (i) The miner's pension; (ii) The workers' point of view; (iii) Training and promotion in nationalized industry; (iv) Problems of promotion policy; (v) The future of the Unions; (vi) The framework of joint consultation; London, Acton Society Trust.
Clapp, Gordon. Supervisory training in the Tennessee Valley Authority. Chicago, Civil Service Assembly, 1936.
Clegg, Hugh. Labour in nationalized industry. London, 1950.
Clegg, Hugh. Labour relations in London transport. Oxford University Press, 1950.
Clegg, Hugh. Industrial democracy and nationalization. Oxford University Press, 1950.
Cole, G.D.H. The National Coal Board. Fabian Research Series, London, 1948.
Cole, Margaret. Miners and the Board. London, Fabian Research Series, 1949.
Northcott, C. H. The personnel aspects of management. London, Institute of Personnel Management, 1951.
Pfiffner, J. M. The supervision of personnel. New York, Prentice Hall, 1951.
Simon, Philippe. La formation professionnelle dans la banque. Paris, Foucher, 1952.
Tickner, F. J. Modern staff training. London, University of London Press, 1952.

V. Managerial Policy and Internal Relationships

Acton Society Trust: (i) Management under nationalization; (ii) The extent of centralization (parts I and II). London, Acton Society Trust.
Barnard, Chester I. Organization and management. Harvard University Press, 1948.
Bienstock, G., Schwarz, S.M. and Yugow, A. Management in Russian industry and agriculture. London, New York, Toronto 1944.
Carlson, Sune. Executive behaviour. Stockholm, Stromberg, 1951.
Dovey, H. O. Handbook of organization and methods techniques. Brussels, International Institute of Administrative Sciences, 1951.

Haynes, W. W. Nationalization in practice: the British coal industry. London, Bailey Bros. and Swinfen, 1953.
Hoslett, S. D. Human factors in management. New York, Harper, 1951.
Houldsworth, Jones, Latham and Citrine. Efficiency in the nationalized industries. London, Allen and Unwin, 1952.
Козлов, Г. Хозяйственный расчет в социалистическом обществе. Москва, 1945 г.
Scott, Walter. Greater production. Sydney, Australia, 1950.
Вопросы планирования предприятия. Москва, 1941 г.

VI. Public Understanding

Acton Society Trust: Relations with the public. London, Acton Society Trust, 1953.
Acton Society Trust: The men on the boards. London, Acton Society Trust.
Brebner, J. H. Public relations and publicity. London, Institute of Public Administration, 1949.
Freedman, L. and Hemingway, G. Nationalization and the consumer. Fabian Research Series, London, 1950.
Geny, Bernard. La collaboration des particuliers avec l'administration. Paris, Sirey 1930.
Leblanc, R. C. Comment humaniser les relations de l'administration avec le public. Brussels, International Institute of Administrative Sciences, 1952.

VII. Asia and The Far East

Report on industrial organizations in the public sector. United Nations, Economic Commission for Asia and the Far East, document No. E/CN.11/I and T/51.

Burma

Resolution of the Economic Council and report of the Industrial Development Committee on industrial policy. Rangoon, Superintendent, Government Printing and Stationery, 1949.

Ceylon

Brohier, R. L. Gal Oya valley project in Ceylon. Colombo, Department of Information, 1951.
Ceylon, Commission on government commercial undertakings, 1951; Report. Colombo, Government Publications Bureau, 1953.
Ceylon, Commission on organization, staffing and operations method in government departments; Report. Colombo, Government Publications Bureau, 1948, (Sessional Paper V.)
Ceylon, Parliament: Gal Oya Development Board Act (No. 51 of 1949).
Ceylon, Irrigation (Director of). Report on the Gal Oya reservoir scheme. Colombo, Government Publications Bureau, 1948.
Detailed statement of action taken on the report on organization, staffing and operative methods in government departments. Colombo, Government Publications Bureau, 1951.
Gal Oya Development Board; Annual Report.

Scott, N. Baliol. Report on the introduction of an organization and methods division into the Ceylon public service. Colombo, Government Publications Bureau, 1951.

China (Taiwan)

Taiwan, National Resources Commission: Industrial enterprises of the National Resources Commission in Taiwan - general information. Taipeh, National Resources Commission, 1951.

Measures for administration of government enterprises. Published on the Presidential Bulletin, No. 210, dated January 22, 1949.

India

Appleby, Paul H. Public administration in India - report of a survey. New Delhi, Manager of Publications, 1953.

Damodar Valley Corporation; annual report.

Gorwala, A. D. Report on public administration. New Delhi, Manager of Publications, 1951.

Gorwala, A. D. Report on efficient conduct of state enterprises. New Delhi, Planning Commission, Government of India, 1951.

Hindustan Shipyard Ltd.; articles of association.

Hindustan Shipyard Ltd., memorandum of association.

Hindustan Shipyard Ltd., accounts for the period 1st March 1952 to 31st March 1953.

History of Sindri fertiliser project. New Delhi, Ministry of Industry and Supply, Government of India, 1950.

India, Committee on State Trading; report, 1949. New Delhi, Manager of Publications, 1950.

India, Parliament; Damodar Valley Corporation Act (No. XIV of 1948). Delhi, Manager of Publications, 1948.

India, Parliament; Industrial Finance Corporation Act, 1948, (No. 15 of 1948).

India, Parliament; Industries (Development and Regulation) Amendment Act, 1953, (No. 26 of 1953).

India, Parliament; Industries (Development and Regulation) Act, 1951, (No. 65 of 1951).

India, Planning Commission; community project administration. Report for 1952-1953.

India, Planning Commission; community projects. A draft outline.

India, Ministry of Production: report, 1952-1953. New Delhi, Ministry of Production, Government of India, 1953.

India, Public Accounts Committee: sixth report on Hirakud Dam project.

India, Ministry of Works, Mines and Power; Ad hoc Committee in connection with investigation of river valley projects; report.

Industrial Finance Corporation of India; annual report.

Rau, P. S. Committee report on Damodar Valley Corporation.

Sindri, a national achievement. Sindri, Sindri Fertilisers and Chemicals Ltd. 1952.

Sindri starts. New Delhi, Ministry of Works, Production and Supply, Government of India

Working of state enterprises in India. Calcutta, Employers' Association, 1951.

Indochina
Report of the Sub-Commission on Modernisation of Indo-China,1948.
Pakistan
Pakistan, Constituent Assembly: Pakistan Industrial Development Corporation Act, 1950.
Pakistan, Constituent Assembly: Pakistan Industrial Finance Corporation Act, 1949.
Pakistan, Ministry of Industries; Council of Industries, proceedings.
Philippines
Philippines, Committee on reorganization of government owned or controlled corporations; report, 1950. Manila,1950.

VIII. United Nations Publications

Development Corporations
E/CN.11/I and T/WP.1/L.24. Development corporations. Paper submitted by the United States delegation. Bangkok, 16 December 1951.
E/CN.11/I and T/WP.2/L.20 Limited. Development corporations and development financing in Latin America. Paper prepared by the Economic Development Section on behalf of the Division of Economic Stability and Development. United Nations Headquarters. Bangkok, September 1952.
E/CN.11/I and T/WP.2/L.21 Limited. Colonial development corporations. Paper prepared by the United Kingdom. Bangkok, 28 August 1952.
E/CN.11/I and T/WP.2/L.25 Limited. Some problems of agricultural and industrial credit in Ceylon. Prepared by H.S.F Goonewardena, General Manager, Agricultural and Industrial Credit Corporation of Ceylon, Bangkok, 18 September 1952.
E/CN.11/I and T/WP.2/L.24 Limited. The growth of development and finance corporations in Pakistan. Paper submitted by Mr. S. A. Imran, Minister of Finance, Government of Pakistan, Karachi. Bangkok, 4 September 1952.
E/CN.11/I and T/WP.2/L.8 Limited. Industrial and agricultural finance and development corporations for Asia and the Far East. Paper submitted by the Secretariat. Bangkok, 18 August 1952.
E/CN.11/I and T/WP.2/L.9 Limited. Relations between foreign capital and the mobilization of domestic capital. Paper submitted by Mr. W. Arthur Lewis in consultation with the ECAFE Secretariat. Bangkok, 14 August 1952.
Reports of Technical Assistance Experts
ST/TAA/Conf.4/L.52. Economic and other considerations that are involved in locating iron and steel plants.
ST/TAA/Conf.4/L.88. Economic significance and structure of iron and steel producing and transforming industries of Latin American countries.
ST/TAA/F/Indonesia/R.14. Small industries: progress reports.
ST/TAA/J/Afghanistan/R.1. Economic aspects of development in Afghanistan.

ST/TAA/J/Ceylon/R.1. The administrative organization and the finance and accounting system of the health and medical services of the government of Ceylon. 7 July 1952.

ST/TAA/J/Colombia/R.1. Public utilities in Colombia.

ST/TAA/J/El Salvador/R.10. Industrial development of El Salvador.

ST/TAA/J/Mexico/R.1. An enquiry into the iron and steel industry of Mexico. 15 October 1951.

ST/TAA/J/Philippines/R.1. Report on technical assistance in the development of the rural weaving industry. 24 July 1951.

ST/TAA/J/Philippines/R.3. The establishment of a pulp and paper industry in the Philippines.

ST/TAA/K/Bolivia/1. Report of the United Nations mission of technical assistance to Bolivia.

ST/TAA/K/Burma/1. Report on the development of small scale cottage industries in Burma.

ST/TAA/K/Burma/3. Economic statistics of Burma.

Other United Nations Publications

E/1986 (ST/ECA/10). Measures for the economic development of under-developed countries. Report by a group of experts appointed by the Secretary-General of the United Nations. 3 May 1951.

E/2374 (E/CN.11/372). Annual Report of the ECAFE. 9 February 1952 - 14 February 1953. 2 March 1953.

E/CN11/EP/5. Relationship between industrial and power development. Bangkok, 13 November 1951.

E/CN.11/I and T/40. Annex 1. Factors affecting mobilization of domestic capital in Malaya. Preliminary paper. Bangkok, 22 December 1951.

E/CN.15/I and T/76. Second Report of the joint ECAFE/ILO/UNESCO working party on fields of economic development handicapped by lack of trained personnel. Bangkok, 27 October 1952.

E/CN.11/I and T/82. Analysis of financial aspects of development programmes. The first progress report by the executive secretary. Bangkok, 31 October 1952.

International Bank for Reconstruction and Development. Economic development of Ceylon. Report of a mission organized by the International Bank for Reconstruction and Development at the request of the Government of Ceylon. 1953.

BIBLIOGRAPHY

SECTION II: JOURNAL ARTICLES

I. General Works

Andrés Alvarez, Valentin. "Introducción al estudio de la empresa pública;" Revista de Administración pública, Madrid, No. 3, 1950, p.41-52.

Beer, Samuel H. "British planning under the labor government;" Social Research, New York, March 1950, p.35-64.

Bird, T.A. "British Electricity 1952-53;" Local Government Finance, London, December 1953, p.278-280.

Black, Martha M. "Aspects of national economic planning under the labour government; " Journal of Politics, Gainesville, Florida, May 1950, p.260-281.

Bland, F.A. "Broadcasting in Australia;" Public Administration (Australia), Sydney, December 1941, p.181-197.

Bland, F.A. "Some implications of the statutory corporation;" Public Administration, London, October 1937, p.393-405.

Boulois, Jean. "Les opérations de nationalisation;" Jurisclasseur administratif, Paris, 1953. fascicule 155.

Brand, Lord. "Nationalization;" Lloyds Bank Review, London, April 1949, p.1-11.

Chamberlain, John. "Britain under planning," Yale Review, New Haven, Conn., December 1946, p.210-229.

Charles, Roger. "Port development in the United Kingdom: review of a century of enterprise and development;" Dock and Harbour Authority, London, June, July and August 1951.

Chester, D.N. "The nationalised industries;" Three Banks Review, London, December 1952, p.23-46.

Chester, D.N. "Organisation of the nationalised industries;" Political Quarterly, London, April-June 1950, p.122-134.

Chester, D.N. "Public corporations and the classification of administrative bodies;" Political Studies, London, February 1953, p.34-52.

Chlepner, B.S. "Réflexions sur le problème des nationalisations;" Revue de l'Institut de Sociologie Solvay, Brussels, No. 2, 1949, p.207-232.

Citrine, Lord. "Problems of nationalised industries;" Public Administration, London, No. 4, 1951, p.317-332.

Coons, Arthur G. "The development of public corporations in economic enterprise;" Annals of the American Academy of Political and Social Science. Philadelphia, November 1939, p.161-170.

"Die Industrialisierung Osteuropas" (The industrialization of Eastern Europe); Osteuropa, Stuttgart, July 1952, p.222-227.

Дудинский, И. Успехи социалистической индустриализации европейских стран народной демократии; Большевик, *Москва, № 19, 1950 г.*

Einaudi, Mario. "Nationalization of industry in Western Europe: recent literature and debates; "American Political Science Review, No. 1. 1950, p.177-191.

Elliott, John. "An account of stewardship: presidential address to the Institute of Transport" (on the work of the British Railway Executive); Journal of the Institute of Transport, London, November 1953, p.243-253.

Fainsod, M. "Recent developments in Soviet Public Administration"; Journal of Politics, Gainesville, Florida, November 1949, p.679-714.

Friedmann, W. "The new public corporations and the law;" Modern Law Review, London, July 1947, p.233-254 and October 1947, p.377-396.

Garrigou-Lagrange, André. "L'état producteur; les entreprises publiques et semi-publiques;" Traité d'économie politique, Paris, Dalloz, 1951-1953.

Greaves, H.R.G. "Public boards and corporations;" Political Quarterly, London, January-March 1945, p.67-77.

Grey, R.Y. "Verdict on nationalization;" Queens Quarterly, Kingston, Ontario, Winter 1952-53, p.427-439.

Hanson, A. H. "Report on the reports: the nationalised industries, 1950-51;" Public Administration, London, Summer 1952, p.111-130.

Hazard, J. N. "Soviet government corporations"; Michigan Law Review, Ann Arbor, Michigan, April 1943, p.850-871.

Hazard, John N. "Soviet socialism and private enterprise;" New York University Law Review, New York, 1950, p. 533-551.

Hill, Sir Reginald. "Review of trade harbours;" British Transport Review, London, December 1951, p.383-388.

Holt, John B. "Corporative occupational organization and democracy in Germany;" Public Administration Review, Chicago Winter 1948, p.34-40.

James, Emile. "Les résultats des nationalisations en France;" Revue de l'Université de Bruxelles, No. 2, 1950, p. 138-155.

Jewkes, John. "The nationalization of industry;" University of Chicago Law Review, Chicago, Summer 1953, p.615-645.

Katzarov, C. "L'état commerçant et les nationalisations;" Revue trimestrielle de droit commercial, 1950, p.20.

Kewley, T.H. "Australian Commonwealth government corporations;" Public Administration (Australia), Sydney, Autumn 1950, p.199-207.

Kewley, T. H. and Rydon, Joan. "The Joint Coal Board (Australia);" Public Administration (Australia), Sydney, June-September 1949, p.58-69.

Константинов, Ф. Планирование народного хозяйства в европейских странах народной демократии; Плановое хозяйство, *Москва, № 1, 1951 г.*

Хромов, П.А. Подъем промышленности СССР в новой пятилетке; Вопросы экономики, *Москва, № 1, 1953 г.*

Lane, Robert E. "Problems of a regulated economy; the British experience;" Social Research, New York, September 1952, p.277-299.

Laufenberger, H. "Entreprise privée et entreprise publique;" L'Actualité Economique, Montréal, January-March 1952, p.603-634.

Laufenberger, H. "Peut-on indéfiniment élargir le secteur public? L'expérience française;" Revue suisse d'économie politique et de statistique, No, 1, 1951, p. 20-28.

Macmahon, Arthur W. and Dittmar, W.R. Autonomous public enterprises - the German railways;" Political Science Quarterly, New York, December 1939, p.481-513, March 1940, p.25-52 and June 1940, p.176-198.

Macmahon, Arthur W. and Dittmar, W.R. "The Mexican oil industry since expropriation;" Political Science Quarterly, New York, March 1942, p.28-50 and June 1942, p:161-188.

Mann, F.K. "The government corporation as a tool of foreign policy;" Public Administration Review, Chicago, Summer 1943, p.194-204.

Menzler,F.A.A. "London and its passenger transport system;"Journal of the Royal Statistical Society, London, vol. xciii, part 3, 1950, p.299-345.

Milne, R.S. "Britain's economic planning machinery;"American Political Science Review, Washington, D.C., June 1952, p. 406-421.

Murphy, M.I. "Nationalization of British industry;"Canadian Journal of Economics and Political Science, Toronto, May 1952, p.146-162.

Neal, F.W. "The reforms in Yugoslavia"; The American Slavic and East European Review, New York, April, 1954, p.227-244.

Oatman, Miriam. E. "The nationalization program in Czechoslovakia;" Department of State Bulletin, Washington, D.C., December 8th 1946, p.1027-1031.

Пафомов, М. Социалистическая индустриализация европейских стран народной демократии; Вопросы экономики, *Москва, № 3, 1953 г.*

Pinkney, David H. "Nationalization of key industries and credit in France after the liberation: "Political Science Quarterly, New York, September 1947, p.368-380.

Pinkney, David H. "Nationalization on trial; France;" Yale Review, No. 1, 1950, p.94-110.

Political and Economic Planning: "Colonial development: the future of the Colonial Development Corporation;" Planning, London, July 7th 1952, p. 20.

"Policy for the nationalised industries;" Banker, London, November 1952, p.278-283.

Pritchett, C. Herman. "The paradox of the government corporation;" Public Administration Review, Chicago, Summer 1941, p.381-389.

Richards, C. Haydn. "Public corporations;" Secretaries' Chronicle, London, February 1954, p.60-64.

Risk, W.S. "Efficiency in nationalised industries;" Accountant, London, July 15th 1950, p.56-58.

Rivera, Jean. "Essai d'un bilan des nationalisations françaises;" Revue de l'Université de Bruxelles, No. 1, 1952, p.5-26.

Robson, William A. "Nationalised industries in Britain and France;" American Political Science Review, Washington,D.C., June 1950, p.299-322.

Robson, William A. "The governing body of the public corporation;" Political Quarterly, London, April-June 1950, p.135-149.

Рожков, А. Промышленный отдел обкома; Партийное строительство, *Москва, № 21, 1940 г.*

Rydon, Joan. "The Australian Broadcasting Corporation, 1932-42: the study of a public corporation;" Public Administration (Australia), Sydney, March 1952, p.12-25.

Salter, Sir Arthur. "The crux of nationalisation;" Political Quarterly, London, April-June 1950, p.209-217.

Smith, G.W. Quick. "Road haulage as a national service;" British Transport Review, London, December 1952, p.199-210.

Сорокин, Г. Социалистическая промышленность в пятой пятилетке; Плановое хозяйство, *Москва, № 5, 1952 г.*

Spann, R.N. "Reith and the B.B.C;" Public Administration, London, Autumn 1950, p.211-218.

Styepanovitch, N. "Les réformes constitutionnelles et administratives en Yougoslavie, 1950-53"; Revue Internationale des Sciences Administratives. Brussels, No. 1, 1954.

Таталов, В. Восстановление и развитие легкой промышленности; Плановое хозяйство, *Москва, № 3, 1947 г.*

Thiel, E. "The power industry in the Soviet Union"; Economic Geography, Worcester, Massachusetts, April, 1951.

Trades Union Congress: "Public ownership review" (5 articles); Labour, London, April-August, 1951.

Train, J.C.L. "A review of the railways under nationalisation;" Journal of the Permanent Way Institute, London, April 1951, p.43-48.

Vedel, Georges. "La technique des nationalisations;" Droit social, Paris, No. 2 and 3, 1946.

Villar Palasi, José. "La actividad industrial del Estado en el derecho administrativo;" Revista de Administración pública, Madrid, No. 3, 1950, p.53-129.

Vito, Francesco. "La pubblica amministrazione e l'attività economica dello stato moderno;" Rivista internazionale di scienze sociali, Milan, No.4, 1953, p.311-324.

Wade, E.C.S. "Constitutional aspects of the public corporation;" Current Legal Problems, London, Vol. 2, 1949, p. 172-181.

Walker, Gilbert. "The genesis of the British economic plan, 1945 to 1950;" Journal of Politics, Gainesville, Florida, May 1950, p.282-289.

Ward, Barbara. "Limits of economic planning;" Foreign Affairs, New York, January 1949, p.246-262.

II. Types of Organization Suitable for Public Enterprises

Angel, Arthur D. "British use of public corporations;" Social Research, New York, September 1947, p.321-331.

Bauer, John. "How to set up utility districts;" National Municipal Review, New York, October 1944, p.462-468.

Bauer, John. "Utilities organized by districts;" National Municipal Review, New York, September 1944, p.395-402.

Baum, Robert D. "Power district legislation;" National Municipal Review, New York, January 1937, p.28-30.

Bopp, Karl R. "Nationalization of the Bank of England and the Bank of France;" Journal of Politics, Gainesville, Florida, August 1946, p.308-318.

Boulois, Jean. "Régime et organisation générale des entreprises nationalisées;" Jurisclasseur administratif, Paris 1953, fascicule 156, p.1-12.

Bonie, J.A. "Are public boards efficient; who should be on them?" Industry, London, December 1947, p.22-24.

"Britain's railways nationalized;" World Affairs, Toronto, February 20th 1948, entire issue.

Bunbury, Sir Henry. "The public corporation;" Public Administration, London, No. 3, 1944-45, p.137-142.

Burn, Duncan. "The National Coal Board;" Lloyds Bank Review, London, No. 19, 1951, p.33-48.

Cahen-Salvador, Jean. "La régie nationale des Usines Renault;" Droit Social, Paris, June 1945.

Campbell, W.J. "The statutory corporation in New South Wales;" Public Administration (Australia), Sydney, September 1952, p.108-118.

Clegg, H.A. and Chester, T.E. "The North of Scotland Hydro-electric Board;" Public Administration, London, No. 3, 1953, p.213-234.

Coase, R.H. "The origin of the monopoly of broadcasting in Great Britain;" Economica, London, August 1947, p.189-209.

Coatman, John. "Constitutional position of the B.B.C;" Public Administration, London, Summer 1951, p.160-172.

Crowther, E. "Administration in the gas industry;" Public Administration, London, No. 4,1951, p.333-334.

Culp. M.S. "Creation of government corporations by the national government;" Michigan Law Review, Ann Arbor, Mich., February 1935, p.473-511.

Curtis, Harry A. "The TVA and the Tennessee Valley - what of the future?" Land Economics, Madison, Wis., November 1952, p.331-340.

Davis, Richard. "The powers and duties of Gas Boards, including a comparison with Electricity Boards;" Institute of Municipal Treasurers and Accountants Students' Societies Lectures, London, 1951-52, p.215-225.

Fabre, R. "Les nationalisations en France: le charbon;" Société belge d'études et d'expansion, Liège, No. 133, 1948, p.739-742.

Fernandez-Carvajal, Rodrigo. "Las empresas públicas en Rusia;" Revista de administración pública, Madrid, No. 3, 1950 p.435-471.

Ferran, John B. "State ownership and the port of New Orleans;" State Government, Chicago, September 1947, p.245-246 and 255.

Fox, William T.R. "Municipal government and special-purpose authorities;" Annals of the American Academy of Political and Social Sciences. Philadelphia, January 1940, p.176-184.

Frischknecht, Reed L. "The commodity credit corporation: A case study of a government corporation;" Western Political Quarterly, Salt Lake City, Utah, September 1953, p.559-569.

Gardellini, R. and Couailler, P. "Les entreprises publiques;" Revue administrative, Paris, No. 27, p.244-248, No. 28, p.354-358, and No. 29, p.454-460.

Gonzáles Perez, Jesús. "Las sociadades de economía mixta y las empresas del estado en la legislación argentina;" Revista de administración pública, Madrid, No. 3, 1950, p.495-500.

Graham, Bruce. "The administrative structures and problems of state-owned utilities in Western Australia;" Public Administration (Australia), Sydney, June-September, 1949, p.116-124.

Hallet, Richard M. "The Maine Port Authority;" State Government, Chicago, September 1947, p.251.

Harris, Mark. "The government corporation in Kentucky; "Kentucky Law Journal, Lexington, Ky., March 1941,p.286-300.

Hervieu. "Les entreprises publiques, organisation foncière et contrôle;" Annales de finances publiques, Paris, 1949.

Hodgetts, J.E. "The public corporation in Canada;" Public Administration, London, No. 4, 1950, p.283-294.

Hodson, H.V. "Broadcasting and (the service it can render to) the Commonwealth;" B.B.C.Quarterly, London, No. 1, 1950, p.1-6.

Hurcomb, Lord. "The development of the organisation of the British Transport Commission;" Public Administration, London, Autumn 1950, p.163-175.

Jungers, Eugène. "L'office d'exploitation des transports du Congo belge: OTRACO;" Société belge d'études et d'expansion, Liège, No. 155, 1953, p. 246.

Jurion, F. "L'Institut national pour l'étude agronomique du Congo belge: INEAC;" Société belge d'études et d'expansion, Liège, No. 147, 1951, p.579.

Kelly, D.W. "The administration of the National Coal Board;" Public Administration, London, No. 1, 1953, p.1-11.

Kennedy, William F. "The Nebraska public power districts;" Journal of Land and Public Utility Economics, February 1939, p.29-48.

Kewley, T.H. and Rydon, Joan. "The Australian Commonwealth Government corporations: a statutory analysis;" Public Administration (Australia), Sydney, March 1950, p.200-221.

Kock, Karin. "L'entreprise d'état en Suède;" Société belge d'études et d'expansion, Liège, No. 144, 1950, p.124-129.

Kuhn, Arthur K. "Extension of sovereign immunity to government-owned commercial corporations;" American Journal of International Law, Washington, D.C., October 1945, p.772-775.

LaBrum, J. Harry. "Delaware River Port Authority, an agency to provide for the expansion and development of the port of Philadelphia;" The Authority, Northampton, Penna., Fall 1952, p.14-18.

Lavergne, Bernard. "La forme coopérative des nationalisations;" L'année politique, économique et cooperative, Paris, No. 84-85, 1948, p.69-91.

Lavigne, Pierre and Pollet, Roger. "Les institutions d'économie mixte;" Jurisclasseur administratif, Paris, 1952, fascicule 160.

Liet-Veaux A. "Les établissements publics à caractère industriel et commercial;" Jurisclasseur administratif, Paris, 1952, fascicule 150.

Lilienthal, David E. and Marquis, Robert H. "The conduct of business enterprises by the federal government;" Harvard Law Review, Cambridge, Mass., February 1941, p. 545-601.

Lloyd, Selwyn. "The future of (British) broadcasting;" National and English Review, London, June 1951, p.340-344.

López Rodo, Laureano. "Las empresas nacionalizadas en Inglaterra;" Revista de administración pública, Madrid, No. 3, 1950, p.373-406.

Luchaire, Francois. "Le statut des entreprises publiques;" Droit social, Paris, Nos. 7-8, 1947.

Lyon-Caen. "Les diverses formules de nationalisation;" Droit social, Paris, No. 2, 1945.

McDiarmid, John. "California uses the government corporation;" American Political Science Review, Washington,D.C., April 1940, p.300-306.

MacMahon, Arthur W. "The Mexican railways under workers' administration;" Public Administration Review, Chicago, Autumn 1941, p.458-471.

Manuelli, Ernesto. "La nationalisation en Italie: théorie générale, expériences et pourcentage d'intervention étatique;" Société belge d'études et d'expansion, Liège, No.138, 1949, p.189.

Masefield, Peter. "Air service administration" (9th Brancker memorial lecture); Aeronautics, London, May 1951,p. 60-69.

Mauchausse, Paul. "Les constantes fondamentales du régime minier du Maroc moderne;" Société belge d'études et d'expansion, Liège, No. 145, 1951, p.318.

Morgan, Robert J. "A new voice in government: the watershed district;" State Government, Chicago, December 1953, p.288-290.

Nottage, Raymond. "Report of the Broadcasting Committee, 1949;" Public Administration, London, Summer 1951, p.173-178.

Oakeshott, Michael. "The B.B.C;" Cambridge Journal, Cambridge, England, June 1951, p.543-544.

Панов, А. Угольная промышленность в пятилетнем плане; Плановое хозяйство, Москва, № 2, 1946 г.

Personnaz. "La nationalisation des houillères;" Droit social, Paris, March-April 1947.

Pincus, William. "Shall we have more TVA's?" Public Administration Review, Chicago, Spring 1945, p.148-152.

Pinney, Harvey. "The nature of government corporations;" Tulane Law Review, New Orleans, December 1940, p.51-74.

Pommeric, A. "Le développement industriel du Maroc; Société belge d'études et d'expansion, Liège, No. 143, 1950, p.836.

Presthus, R.Vance. "British public administration: the National Coal Board;" Public Administration Review, Chicago, Summer 1949, p.200-210.

Pritchett, C. Herman. "Lessons of the TVA power grogram;" Public Affairs, Halifax, Nova Scotia, Winter 1946, p. 98-103.

Pritchett, C. Herman. "The meaning of the TVA;"Virginia Quarterly Review, Charlottesville, Va., Autumn 1942, p.561-572.

Pritchett, C. Herman. "The transplantability of the TVA;" Iowa Law Review, Iowa City, January 1947, p.327-338.

Ransmeier, Joseph S. "Ten years of Tennessee Valley Authority;" Public Affairs, Halifax, Nova Scotia, Summer 1943, p.219-222 and 232.

Ritchie, Sir Douglas. "The constitution and functions of a port authority;" Journal of the Institute of Transport, London, November 1949, p.211-214.

Roblot, R. "La nationalisation du gaz et de l'électricité;" Droit Social, Paris, No. 5, 1946, p.179.

Rollet, Henri. "Les nationalisations françaises;" La Revue nouvelle, No. 4, 1948, p.372-379.

Ruy de Souza. "Servicios de estado e seu regime juridico;" Revista de direito administrativo, Rio de Janeiro, No. 28, 1952.

Segnadas, Vianna. "Le développement industriel du Brésil;" Société belge d'études et d'expansion, Liège, No. 156, 1953, p. 407.

Seidman, Harold. "The theory of the autonomous government corporation: a critical appraisal;" Public Administration Review, Chicago, No. 2, 1952, p.89-96.

Self, Sir Henry. "Organisation of the British Electricity Authority;" Public Administration, London, Spring 1949, p.10-12.

Skau. "Commercial State Enterprises" (in Danish); Nordisk administrativt Tidsskrift, Copenhagen, No. 3-4, 1952, p. 376-423.

Snoeck, J. "Les entreprises d'électricité nationalisées;" Union des exploitations électriques en Belgigue, No. 1, 1950, p.36-43.

Sturmthal, Adolf. "The structure of nationalized enterprises in France;" Political Science Quarterly, New York, September 1952, p.357-377.

Tobias, Thomas J. "South Carolina State Ports Authority;" State Government, Chicago, September 1947, p.252-256.

Tobin, Austin J. "The Port of New York Authority;" State Government, Chicago, September 1947, p.234-239.

Torres de Freitas, Byron. "Planejamento e controle da produção de energia elétrica no Estado do Rio: a Comissão Estadual de Energia Elétrica;" Revista do Serviço Público, Rio de Janeiro, January 1953, p.39-45.

Vignier, P. "La mise en valeur du delta central du Niger; l'Office du Niger;" Société belge d'études et d'expansion, Liège, No. 148, 1951, p.734.

Wald, Arnold. "As sociedades de economia mista;" Revista do Serviço Público, Rio de Janeiro, vol. iii, No. 2, 1953, p.46-50.

III Organizational Relationships and Controls

Acton Society Trust. "The organisation of British railways;" Public Administration, London, No. 3, 1952, p.263-280.

Ardant, Gabriel. "La mesure du rendement des entreprises et des services publics;" Revue économique, Paris, No. 4, 1952, p.449-491.

Ardouin, P. "Les chemins de fer marocains;" Société belge d'études et d'expansion, Liège, No. 136, 1949, p.488.

Balls, H. R. "The financial control and accountability of Canadian Crown corporations;" Public Administration, London, No. 2, 1953, p.127-143.

Beacham, A. "Planned investment in the coal industry;" Oxford Economic Papers, Oxford, June 1951, p.125-154.

Beevar, Miles. "The public accountability of the (British Transport) Commission;" British Transport Review, London, December 1950, p.146-155.

Berend, Pierre. "Les prix de revient et le contrôle de la gestion dans les manufactures de tabacs du Service d'Exploitation industrielle des Tabacs et des Alumettes;" Revue économique, Paris, No. 4, 1952, p.499-516.

Bird, Roland. "Public bodies and public accountability;" Lloyds Bank Review, London, January 1950, p.12-22.

Blandford, John B., Jr. "The TVA-co-operation in government;" Public Management, Chicago, October 1935, p.296-298.

Boulois, Jean. "Régime des biens et statut financier des entreprises nationalisées;" Jurisclasseur administratif, Paris, 1953, fascicule 158.

Bradshaw, Kenneth. "Parliament and the public corporation;" Cambridge Journal, Cambridge, England, September 1950, p.707-726.

Burting, F. "Gas finance and accounts;" Institute of Municipal Treasurers and Accountants Societies Lectures, London, 1950-51, p.183-214.

Chester, D.N. "Management and accountability in the nationalised industries;" Public Administration, London, No. 1, 1952, p. 27-47.

Coffman, C.T. "Legal status of government corporations;" Federal Bar Journal, Washington, D.C., July 1946, p.389-416.

Commission (française) de vérification des comptes des entreprises publiques. "Le contrôle économique et financier des établissements publics nationaux de caractère industriel ou commercial, des entreprises nationalisées et des sociétés d'économie mixte dont l'état possède la majorité du capital social;" Revue du Trésor, Paris, No. 2, 1953, p.44-56.

Coulson, H.O.H. "Control of public corporations: functions of the auditor;" Accountant, London, May 12th 1951, p. 455-459.

Culp, M.S. "Creation of government corporations by the national government;" Michigan Law Review, February 1935.

Dakyns, Arthur A. "The control of the central authority over the activities of public undertakings;" Public Administration, London, No. 2, 1938, p.157-172.

Davies, Ernest. "Ministerial control and parliamentary responsibility of nationalised industries;" Political Quarterly, London, April-June 1950, p.150-159.

Dimock, Marshall E. "Government corporations; a focus of policy and administration;" Political Science Review, Washington, D.C., No. 5, 1949, p.899-921, and No. 6, 1949, p.1145-1164.

Durisch, Lawrence L. and Mason, Hershal L. "Payments in lieu of taxes by the Tennessee Valley Authority;" Journal of Politics, Gainesville, Florida, August 1941, p. 318-334.

Field, Oliver P. "Government corporations; a proposal; "Harvard Law Review, Cambridge, Mass., March 1935, p. 775-796.

Garrido Falla, Fernando. "La intervención administrativa en materia económica y las corporaciones de gobierno en Norteamérica;" Revista de Administración pública, Madrid, No. 3, 1950, p.407-434.

Glaeser, Martin G. "The powers of the power district boards; " Public Utilities Fortnightly, Washington, D.C., March 3rd 1952, p.278-283.

Goodall, Merrill R. "Land and power administration of the Central Valley project;" Journal of Land and Public Utility Economics, Madison, Wis., August 1942, p.299-331.

Gorlia, Emile. "Le comité spécial du Katanga a 50 ans;" Société belge d'études et d'expansion, Liège, No. 140, 1950, p.247.

Greenland, P.C. "Statutory corporation finance;" Public Administration (Australia), Sydney, June 1950, p.269-280.

Gulick, Luther. " 'Authorities' and how to use them;" Tax Review, New York, November 1947, p.47-52.

Gutch, Gweneth. "Nationalized industries and the Public Accounts Committee, 1951-1952;" Public Administration, London, No. 3, 1953, p.255-263.

Hanson, A.H. "Parliamentary questions on the nationalised industries;" Public Administration, London, No. 1, 1951, p.51-66.

Heald, Sir Lionel. "Nationalised industries and the legislature;" British Transport Review, London, December 1953, p.472-480.

Kessels, S.H. "Some legal aspects of port working: liabilities and rights of dock authorities;" Dock and Harbour Authority, London, October 1951, p.181-182.

Laurent, Alfred. "Les méthodes actuelles de gestion de l'électricité de France;" L'année politique, économique et coopérative, Paris, No. 93, 1950, p.298-307.

Lavigne, Pierre and Pollet, Roger. "Les modalités du contrôle étatique des institutions d'économie mixte;" Jurisclasseur administratif, Paris, 1952, fascicule 160, p.17-21.

LeBrun, P. "Le problème du statut des entreprises publiques;" Revue politique et parlementaire, Paris, April-May, 1948.

"Les participations de l'état dans les entreprises en Italie;" Problèmes économiques, Paris, No. 232, 1952, p.15-19.

Lewis, B. W. "Role of Federal Power Commission regarding power features of federal projects;" George Washington Law Review, Washington, D.C., December 1945, p. 96-113.

"Loi (bulgare) sur les entreprises d'état;" Documentation juridique étrangère, Brussels, No. 6-7, 1953, p.5-16.

Локшин, Е. Организационные проблемы промышленности СССР; Проблемы экономики, Москва, № 4, 1939 г.

McGuire, O.R. "Some problems arising from government corporations;" University of Pennsylvania Law Review, Philadelphia, June 1937, p.778-794.

McIntyre, John A. "Government corporations as administrative agencies; an approach;" George Washington Law Review, Washington, D.C., January 1936, p.161-210.

Marlett D.L. and Strickler, W.M. "Rural electrification authorities and electric cooperatives: state legislation analysed;" Journal of Land and Public Utility Economics, Madison, Wis., August 1936, p.287-301.

Milligan, F. "Ministerial control of the British nationalized industries;" Canadian Journal of Economics and Political Science, Toronto, May 1951, p.164-183.

Morrison, Herbert. "Public accountability;" Public Administration, London, Autumn 1950, p.176-178.

Morrison, Herbert. "Public control of the socialised industries;" Public Administration, London, No. 1, 1950, p.3-9.

Nehemkis, P.R. Jr. "The public authority: some legal and practical aspects;" Yale Law Journal, New Haven, Conn., November 1937, p.14-33.

Onar, Siddik Sami. "The analysis and criticism of the causes of appearance of the public corporations in Turkey and the legal and administrative structures of these

corporations;" Revue internationale des Sciences Administratives, Brussels, No. 1, 1954, p.23-66.

Paulhac. "L'industrialisation financière des services publics;" Annales de finances publiques, Paris, vol. vi-viii.

Pinney, Harvey. "The legal status of federal government corporations;" California Law Review, Berkeley, Calif., September 1939, p.712-736.

Планирование в послевоенный период и новая структура госплана; Плановое хозяйство, *Москва, № 5, 1946 г.*

"Port organisation and finance;" Dock and Harbour Authority, London, November 1951, p.211-216.

Pray, Kenneth L. "Financial status of federal corporations;" Harvard Business Review, Boston, Mass., Winter 1946, p.158-168.

Presthus, R. Vance. "Financial aspects of Britain's National Coal Board;" Journal of Politics, Gainesville, Florida, May 1950, p.348-370.

Pritchett, C. Herman. "Administration of federal power projects;" Journal of Land and Public Utility Economics, Madison, Wis., November 1942, p. 379-390.

Pritchett, C. Herman. "The Government Corporation Control Act of 1945;" American Political Science Review, Washington, D.C., June 1946, p.495-509.

Rivero, Jean. "Le nouveau statut de la Compagnie Air-France;" Droit Social, Paris, June 1949.

Robson, William A. "The administration of nationalized industries in Britain;" Public Administration Review, Chicago, No. 3, 1947, p.161-169.

Schnell, Robert H. "Federally owned corporations and their legal problems;" North Carolina Law Review, Chapel Hill, N.C., February 1934, p.77-98, April 1936, p.238-273 and June 1936, p.337-366.

Scott, M.F. "Investment policy in a nationalised industry;" Review of Economic Studies, Cambridge, England, No. 44, 1949-50, p.179-188.

Self, Sir Henry. "The public accountability of the corporations;" Public Administration, London, No. 3, 1947, p.131-140.

Smith, J.H. and Chester, T.E. "The distribution of power in nationalised industries;" British Journal of Sociology, London, December 1951, p.275-293.

Смохов, Б. Планирование ремонта основных фондов; Плановое хозяйство, *Москва, № 10, 1949 г.*

Токарев, Б. О методах оценки выполнения плана по ассортименту; Плановое хозяйство, *Москва, № 8, 1939 г.*

Tucker, W.H. "Public control of statutory corporations;" Public Administration (Australia), Sydney, March 1954, p. 19-24.

Tyrrell, S.C. "Nationalisation and cost accountancy;" Cost Accountant, London, January-February 1948, p.67-71.

Vickers, Sir Geoffrey. "The accountability of a nationalised Industry;" Public Administration, London, No. 1, 1952, p.71-80.

Виленский, Л. Финансовые вопросы промышленности; Плановое хозяйство, *Москва, № 10, 1938 г.*

Wilson, R.H. "The accounting and financial structure of British Transport;" British Transport Review, London, April 1950, p.27-39 and August 1950, p.112-120.

See also the (British) annual reports:
British Electricity Authority, 1947-49 to date.
British European Airways, 1952-53, to date.
Gas Council, 1948 to date.
British Transport Commission, 1948 to date.
National Coal Board, 1946 to date.

The first reports in each instance are valuable for their description of the organisation and administration of each industry.

V. Personnel Management

Acton Society Trust. "Promotion policy in the nationalized industries;" Personnel Management, London, January-February 1951, p.17-22.

Аристов, Н. Организованный набор рабочей силы; Плановое хозяйство, *Москва, № 11, 1939 г.*

Bell, R.W. "The relation of promotion and training to higher management in British nationalized industries;" Public Administration, London, No. 3, 1951, p.201-216.

Bailes, A. "The payment of workers under the National Dock Labour Board;" Journal of the Institute of Transport, London, September 1949, p.181-185.

Boulois, Jean. "Le personnel des entreprises nationalisées;" Jurisclasseur administratif, Paris, 1953, fascicule 157.

Бурмистенко, Н. О подборе и выдвижении кадров; Партийное строительство, *Москва, № 15, 1939 г.*

Cole, G.D.H. "Labour and staff problems under nationalisation;" Political Quarterly, London, April-June 1950, p. 160-170.

Coombes, B.L. "A miner considers the effects of nationalisation;" Fortnightly Review, London, May 1951, p.328-334

Gilbert, Frank. "British transport staff relations;" Journal of the Institute of Transport, London, May 1951, p.148-152.

Hartley, Sir Harold. "The place of further education in the public services;" Public Administration, London, No. 4, 1951, p.363-372.

Hughes, Pennethorne. "How the B.B.C. trains its staff;" B.B.C. Quarterly, London, Autumn 1952, p.164-168.

Юнович, И. Вопросы труда и заработной платы в машиностроении; Плановое хозяйство, *Москва, № 6, 1939 г.*

Johnson, Eldon L. "Joint consultation in Britain's nationalized industries;" Public Administration Review, Chicago, No. 3, 1952, p.181-189.

"Joint consultation on production in the British Post Office;" Personnel Administration, Washington, D.C., July 1952, p.1-5.

Lindgren, G.S. "The role of joint consultation in nationalized industries;" Personnel Management, London, May-June 1949, p.133-139.

Marsh, H.J. "Nationalized industries and industrial relations;" Personnel Management, London, March-April 1948, p. 53-64.

Nordling, Rolf. "Conception européenne de la formation des cadres dirigeants de l'économie;" Société belge d'études et d'expansion, Liège, No. 155, 1953, p.368.

Taylor, A.J. "Staff organisation of the (New Zealand) Railways Department;" Journal of Public Administration (New Zealand), Wellington, March 1948, p.28-44.

Young, Edgar B. "Personnel administration in the Port of New York Authority;" Public Personnel Review, Chicago, July 1946. p.132-140.

V. Managerial Policy and Internal Relations

Ardant, Gabriel. "The measurement of productivity in state undertakings and public services;" International Labour Review, Washington, D.C., May 1953, p.434-452.

Boulois, Jean. "Les organes de direction des entreprises nationalisées;" Jurisclasseur administratif, Paris, 1953, fascicule 156, p.12-30.

Dunkerly, Roland. "Management of office staffs in industrial establishments;" Public Administration, London, No. 2, 1927, p.138-149.

Emmerich, Herbert. "The administration of public enterprises in the United States;" Public Administration, London, No. 3, 1947, p.140-153.

Florence, F.S. and Walker, Gilbert. "Efficiency under nationalisation and its measurement;" Political Quarterly, London, April-June 1950, p.197-208.

Houin, R. "La gestion des entreprises publiques et les méthodes du droit commercial;" Archives de philosophie du droit, Paris 1952, p.79.

Kull, Donald C. "Decentralized budget administration in the Tennessee Valley Authority;" Public Administration Review, Chicago, No. 1, 1949, p.30-35.

Кошелев, Ф. О большевистских методах управления социалистическим хозяйством; Деньги и кредит, *Москва, № 6-7, 1940 г.*

Холодный, Р. Планирование товарной продукции; Плановое хозяйство, *Москва, № 4, 1940 г.*

view, Chicago, No. 1, 1949, p.30-35.

Liet-Veaux G. "Structure interne de l'établissement public industriel ou commercial;" Jurisclasseur administratif, Paris, 1952, fascicule 150, p.10-14.

Поляк, Г. О фонде директора промышленного предприятия; Плановое хозяйство, *Москва, № 4, 1938 г.*

Rastovcan, P. "O polozaju i ovlastina direktora privrednih poduzeca" (The role and competence of the directors of our economic enterprises); Zbornik pravnog fakulteta u Zagrebu, Zagreb, No. 3, 1953.

Simpson, J.R. "Organizing the larger units; government departments and nationalized industries;" British Management Review, London, July 1949.

Thornton, R.H. "Nationalisation: administrative problems inherent in a state-owned enterprise;" Public Administration, London, No. 1, 1947, p.10-21.

VI. Public Understanding

Barrie, D.S.M. "Railway public relations;" Journal of the Institute of Transport, London, November 1950, p.14-18.

Carr T.H. "Local advisory committees - a chairman's point of view;" British Electricity, London, December 1953, p.402-404.

Florence, D.S. and Maddick, H. "Consumers' councils in the nationalised industries;" Political Quarterly, London, July-September 1953, p.259.

Griffith, J.A.G. "The voice of the consumer;" Political Quarterly, London, April-June 1950, p.171-183.

Grove, J.W. "The consumers' councils for gas and electricity;" Public Administration, London, No. 3, 1950, p.221-230.

Johnson, Eldon L. "Consumer 'control' in British nationalized industries;" Journal of Politics, Gainesville, Florida, February 1953, p.88-113.

"Les conseils de consommateurs dans les industries britanniques nationalisées;" Prolèmes économiques, Paris, No. 157, 1951, p.21-23.

Neuman, A.M. de. " 'Consumers' representation in the public sector of industry;" Manchester School of Economic and Social Studies, Manchester, May 1950, p.163-174.

Rodriguez, F. "Aspectos sociales de la nacionalización;" Revista de administración pública, Madrid, No. 3, 1950, p.173-212.

Rusholme, Baron. "Consumer councils in transport; "British Transport Review, London, December 1951, p.355-360.

Sturmthal, Adolf. "Nationalization and workers' control in Britain and France;" Journal of Political Economy, Chicago, No. 1, 1953, p.43-79.

VII. Asia and The Far East

Gadgil, D.R. "Le problème du développement économique de l'Inde et d'autres pays d'Asie;" Société belge d'études et d'expansion;" Liège, No. 152, 1952, p.655.